

CARBON MECHANISMS REVIEW

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Aligning with Paris

The voluntary market in transition

Transition Options

How should CDM projects and CERs be treated under the Paris Agreement?

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editorial

Dear Reader!

The fundamental change the Paris Agreement brought to international climate mitigation action affects the voluntary carbon market in its core: unlike under the Kyoto Protocol, all countries worldwide are now required to reduce GHG emissions. This means that the voluntary market's traditional model – import emissions reduction from, say, a cookstove project somewhere in the Global South to offset emissions from companies in Europe or North America – no longer works. New approaches have to be found to ensure that voluntary action supports real additional activities that go beyond existing host countries' climate plans as laid down in the NDCs.

In this Carbon Mechanisms Review, we take a tour d'horizon of this debate: we present the position of the German Environment Ministry, and feature an interview with the Gold Standard, explaining their answers and their approach to the new challenges. We also put the debate into context and ask what essential steps need to be taken this year to make credible voluntary offsetting and market-based climate action under Article 6 possible in the first NDC period.

Also in this issue, we report on the recent NDC updates and analyse countries' attitudes towards the use of market mechanisms for their NDC achievement. Finally, we look at the CDM transition and present options for regulating the transition of both CDM activities and CERs into the Paris Agreement world.

On behalf of the editorial team, I wish you a fruitful read.

Christof Arens
Editor-in-chief



Carbon Mechanisms Review (CMR) is a specialist magazine on cooperative market-based climate action. CMR covers mainly the cooperative approaches under the Paris Agreement's Article 6, but also the broader carbon pricing debate worldwide. This includes, for example, emission trading schemes worldwide and their linkages, or project-based approaches such as Japan's bilateral off-setting mechanism, and the Kyoto Protocol's flexible mechanisms CDM/JI. CMR appears quarterly in electronic form. All articles undergo an editorial review process. The editors are pleased to receive suggestions for topics or articles.

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New Dynamics

Growing number of corporates adopting climate neutrality targets provide boost for voluntary carbon market

by Malin Ahlberg and Silke Karcher, BMU

Demand for the voluntary carbon market is growing rapidly, and new initiatives on standards for corporate mitigation actions are emerging. At the same time, rules for cooperative approaches under the Paris Agreement (Article 6) are still being negotiated under the UNFCCC. The voluntary market as such is not regulated by international rules so far. However, the UN Clean Development Mechanism and options for voluntary cancellation in its registry have been used by the voluntary market. Also, Article 6.4 foresees a role for the private sector. Thus, politically, these processes can influence each other. This article explores what is needed for the voluntary market to help close the ambition gap to a well below 2 °C world.

Channeling private sector engagement in the right direction

The rapid increase in demand makes the voluntary market a potentially relevant contributor to raising climate ambition, closing the mitigation gap, and preventing us from keeping within the Paris Agreement climate goal. Thus, the voluntary market could leave its niche existence and become a factor in climate policy.

There is now a window of opportunity to determine whether the voluntary market will be effective in raising ambition with real additional activities that go beyond existing NDCs – or

whether the engagement of the private sector will contribute somewhat to financing projects but will largely remain without effects for the global climate.

Increasing demand

Corporate and private demand for certificates to compensate or “offset” emissions is increasing. Some individuals offset their lifetime CO₂-footprint and there is already a long list of well-known companies that are going in this direction, such as Microsoft, Amazon, IKEA, Sony, Unilever; automobile companies (such as VW, BMW, Ford) electric utilities (e.g. RWE; EDF group, ENEL), airlines and airport services and so on.

The commitments of corporates to climate targets has increased the number of initiatives aiming to support and guide corporates in their engagement: To date, 1,205 companies are part of the Science Based Target Initiative (SBTi). The “Task Force on Scaling Voluntary Carbon Markets (TSVCM)” led by Mark Carney – UN Special Envoy for Climate Policy and Finance and Climate Finance Advisor to the UK Government in preparation for COP26 – represents around 90 global companies and the German initiative “Alliance for Development and Climate” has over 850 supporters. Given the spotlight on the issue, more initiatives can be expected to emerge in the coming months.

Box 1: The Voluntary Carbon Market

The term ‘voluntary carbon market’ is not clear cut and can relate to activities with different characteristics. In its most common usage it refers to a situation in which individuals or organisations buy carbon credits issued by privately organized certification schemes to voluntarily reduce their carbon footprint for ethical reasons or reasons of corporate social responsibility.

In recent years, though, the lines between the compliance market and the voluntary carbon market become increasingly blurred. Private certification standards are also being used in compliance markets and voluntary buyers do also use internationally governed market standards for voluntary offsetting.

Furthermore, the voluntary purchase of carbon credits is no longer limited to the private sector but also includes national and subnational public bodies. This makes a clear delimitation of both markets increasingly difficult.

Increasing global ambition

All initiatives have in common the aim to raise global ambition through their engagement. However, whether the initiatives can live up to this ambition is less certain – this critically depends on the standards and principles these initiatives are going to apply for voluntary action.

Key parameters for determining whether this commitment will actually contribute to increasing ambition are: Do companies plan to transform

their business (including the entire value chain¹) to a low- or zero carbon model? What role will offsetting play on what timescale? And what quality standards will be applied to credits for compensation?

If companies with relevant global emissions develop a mitigation strategy for a “1.5°C compatible target” and use robust environmental and social standards for offsetting unavoidable emissions this could lead to real additional global ambition.

Additionality and avoiding double counting in a Paris world

The transition from the Kyoto Protocol to the Paris Agreement in 2021 marks a fundamental change in the global governance of GHG emissions and consequently for the transfer of credits. With the Paris Agreement, Parties expressed their common understanding that when countries cooperate in achieving their NDCs under Article 6, double counting of emission reductions must be avoided. However, this not only has implications for the compliance market but also for the voluntary market. The new challenge under the Paris Agreement is how to embed, account for and transfer climate activities’ outcomes to be used for the voluntary carbon market from countries which now have their own mitigation targets. The emission reductions generated by a mitigation activity would generally be claimed against the national target. However, if the emission reduction is used outside the national borders, double counting can be avoided by reflecting this in the emissions book-

¹ The “GHG-Protocol standard” distinguishes between three scopes to which emissions can be assigned: Scope 1: all direct emissions, i.e. emissions from sources within companies borders; Scope 2: indirect emissions from externally generated and purchased electricity, steam, heating and cooling; Scope 3: all other indirect emissions, including those from production, transport of purchased goods or distribution, use of own products or disposal of waste and emissions from business travel.



New challenge for voluntary action: as all countries now have their own mitigation targets, double counting of transferred mitigation outcomes must be avoided.

keeping of the host country and in the case of a transfer by making a corresponding adjustment.

If corporates or citizens want to use credits to be able to declare climate neutrality – of a company or a certain action, such as a flight – emission reductions must not be used and reported twice. For instance, if the same emission reduction is used by a company for the climate neutrality goal and by a country to achieve its target under the Paris Agreement, this would constitute double counting between the compliance and the voluntary system. Thus, the climate action would not result in any global increase of ambition and the impact of voluntary engagement in carbon markets could be negligible for the global climate. Hence, market players of the voluntary market would risk reputation and credibility.

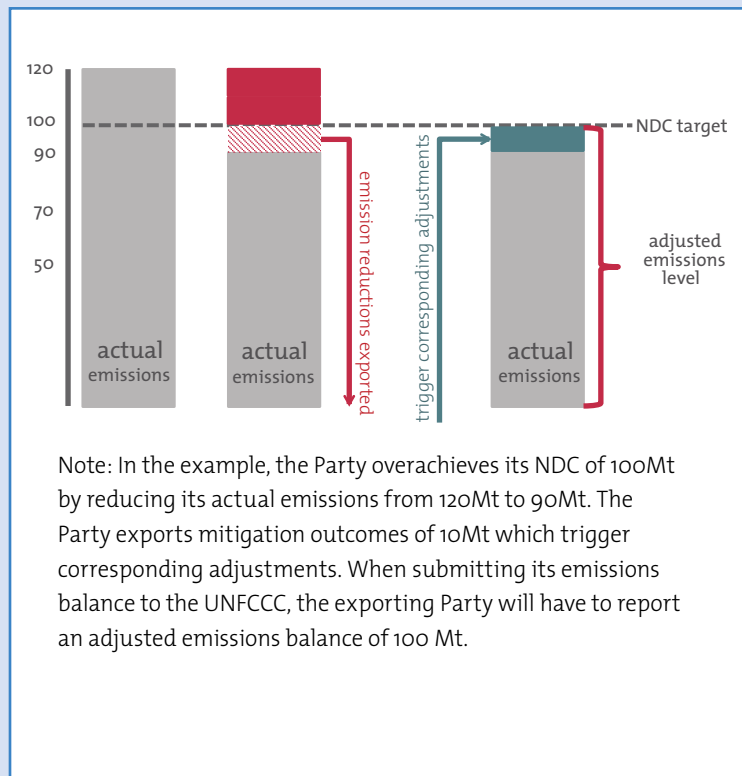
Therefore, if the credit is used for a climate neutrality claim aligned with the Paris Agreement, this means that the voluntary market must realize its potential in addition to existing climate commitments. In practical terms, this implies the need to update the baseline and additionality definition by taking into account countries' NDC targets and to avoid double claiming of emission reductions between and within systems.

Alternative credible claim

An alternative for the voluntary market is to offer non-offset units like “NDC support units” or “financial claim units” from projects that contribute to the achievement of a host country's NDC. Such units could not be used for compensation purpos-

Box: Corresponding adjustments under Article 6 of the PA

The Paris Agreement states that Parties willing to use cooperative approaches under Art. 6.2 are to apply robust accounting to, inter alia, avoid double counting. Double counting is also excluded for the use of the Article 6.4 mechanism through Article 6.5 of the Paris Agreement. While the detailed accounting rules are still subject to negotiations, the Transparency Framework adopted by Parties in Katowice contains some preliminary guidance on how to account for transfers under Article 6.2. These accounting provisions require Parties to adjust their emissions balance on the basis of corresponding adjustments (para 77d, UNFCCC, 2019b). This adjustment requires exporting Parties to make an addition to their emissions balance for the mitigation outcomes transferred, which will lead to an increase of their net emissions. The adjacent figure illustrates how the corresponding adjustments impact an exporting Party's emissions balance.



es and thus not for carbon neutrality claims, but could be reported in the CSR report of companies. The advantage is creditable communication of the action and no risk of double counting.

However, for many investors, carbon neutrality claim is one of the main reasons to engage in the voluntary carbon market. So far, only some few buyers are interested in a CSR- alternative to carbon offsetting. Gold Standard offers such an asset for the private sector. But there are also examples of governments that offer domestic labels. For instance, France issues the “Label Bas-Carbone”, awarded for voluntary domestic project activities within the NDC borders as a climate policy instrument.

In the run-up to COP 26

There is a need for greater clarity and guidance related to the legitimate use of carbon credits and the validity of corporate net zero claims. So far, there still is no consensus between stakeholders regarding the question of how the voluntary market should fit into the Paris world. Some stakeholders oppose the requirement of corresponding adjustments for units that are used for climate neutrality targets in a non-compliance system. Others, like Gold Standard, WWF, EDF as well as the voluntary market supplier atmosfair, see this as an important requirement for the credibility of the voluntary market.

Meanwhile, in order to guide voluntary actions, working groups on quality criteria for credits have been formed under the SBTi and the Carney-Task force (TSVCM). Furthermore, Gold Standard is currently developing a

8 VOLUNTARY MARKETS



Source: Participants from Liberia and Malawi at the end of their six-month solar engineering course by UN Women (<https://flic.kr/p/bVNkQf>) / Flickr / CC BY-NC-ND 2.0 (<https://creativecommons.org/licenses/by-nc-nd/2.0/>)

Credible compensation: voluntary climate action often combines climate and sustainable development goals.

“Voluntary Carbon Market Transition Framework” to be finalized for the COP in Glasgow. In addition, an umbrella platform – the so called High Ambition Demand Accelerator (HADA) – was established at the beginning of this year (2021). This civil society initiative aims to create coherence between different civil society actors in order to provide clear and authoritative guidance on how voluntary carbon credits can be used by corporates and other non state actors as part of credible net zero decarbonisation strategies.

We recognise that the carbon market (including the voluntary market) is facing great uncertainties for project activities. We hope that in Glasgow robust rules for Article 6 will be defined and that we will gain more clarity on how voluntary action can be aligned with the Paris Agreement.

At COP 25 in Madrid highly promising groundwork was laid for clear rules that could help to guide the implementation of voluntary market activities through using the Article 6.4 mechanism or the Article 6.2 guidance: the last draft

negotiation text for Article 6.2 on the definition of ITMOs and on guidance for their transfer refers also to “other purposes” than trade between Parties.

“Other purposes” is understood to definitively include compliance purposes outside the Paris Agreement, like the CORSIA scheme for international aviation. It can – and in view of the authors should – also be read as including voluntary markets. The text stipulates the same requirement regarding corresponding adjustments for “other purposes”, see highlighted text in box 3.

The ITMO definition in Article 6.2 includes Article 6.4 emission reduction units if they are transferred. Thus, the necessity of corresponding adjustments applies to all transfers under Article 6.2 and Article 6.4. Draft rules for Article 6.4 include the option for voluntary cancellation. A similar option under the CDM has been routinely used by voluntary market stakeholders working with CERs.

Rules for cancellation and how to include voluntary market activities in corresponding adjustments will help to deliver one of the purposes of the Article 6.4 mechanism: “Art. 6.4 (b) To incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public **and private** entities authorized by a Party; ...” (Authors’ emphasis)

Private engagement is crucial for the global climate

We are fully aware that it will take time for governments to build capacity and procedures to approve and apply corresponding adjustments. However, project developers should be able to invest and implement project activi-

ties now, otherwise valuable time for combating climate change would be lost. Thus, the staggered approach for corresponding adjustments suggested by Gold Standard (see interview with Hugh Salway elsewhere in this issue) might be a way forward to achieve a balance between practicability and environmental integrity. Additionally, developed countries should strongly accelerate the support for developing countries in building the institutional capacity for the carbon market – and also explore credible solutions for voluntary actions in a capped world at home.

Box 3 – The Madrid negotiation texts (excerpts relating to voluntary markets)

Last draft text for Article 6.2

Matters relating to Article 6 of the Paris Agreement: Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement Version 3 of 15 December 00:50 hrs

Para 1

f: “Internationally transferred mitigation outcomes (ITMOs) from a cooperative approach are (...) mitigation outcomes authorized by a participating Party for use for international mitigation purposes other than achievement of its NDC **or for other purposes**, including as determined by the first transferring participating Party (hereinafter referred to as other international mitigation purposes);

g: 6.4ERs under the mechanism established by Article 6, paragraph 4 when they are internationally transferred.

Para 34:

“Where a Party expressly authorizes the use of mitigation outcomes, for a purpose other than towards an NDC, this guidance shall apply to such mitigation outcomes, **whether or not they have been internationally transferred**.”

Last draft Text for Article 6.4:

Matters relating to Article 6 of the Paris Agreement: Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement

Version 3 of 15 December 1:10 hrs

5. Requests the Supervisory Body to:

(b) Develop provisions for the development and approval of methodologies, validation, registration, monitoring, verification and certification, issuance, renewal, transfer from the mechanism registry, **and voluntary cancellation**, pursuant to paragraphs 30-58 of the annex;

Annex:

K. Voluntary cancellation

58. Activity participants may voluntarily request the mechanism registry administrator to cancel a specified amount of A6.4ERs in accordance with their instructions.

(Emphasis added by the authors)

“Corresponding Adjustments not an Unsurmountable Obstacle”

Malin Ahlberg and Nicolas Kreibich talk to Hugh Salway of Gold Standard on the transition of the voluntary market, avoiding double claiming, and using credits with integrity

Q. The focus of Gold Standard’s recent consultation is how to align with the Paris Agreement. The growth and development of the voluntary market has in the past few decades been largely independent to government frameworks. Why is it important for you to align with the Paris Agreement?

A. The Paris Agreement marks a major shift in the global context for climate action, as well as for the practice of carbon trading. In the past, climate targets were largely short-term and primarily in more industrialised countries. Now, essentially all countries have NDCs, and there is a collective international commitment to bring global emissions into balance with carbon sinks in the second half of this century.

The voluntary carbon market has to work in support of this global effort, rather than play by its own rules. For Gold Standard, we want to make sure that our projects work to complement to national ambition and action rather than risking displacing it. We want to ensure that our projects continue to represent best practice for carbon trading, aligning with – and where necessary going beyond – provisions agreed under Article 6.

And as the lines blur between voluntary and compliance markets, we also want to ensure that our



Hugh Salway is Head, Environmental Market, at the Gold Standard.

standard and our projects are able to serve not only the voluntary market, but also other forms of demand that are emerging. This represents a major opportunity, as market applications diversify and more and more align with Paris as their starting point.

Q. With regard to the transition of existing projects, you are proposing a new concept that requires projects to demonstrate their vulnerability: the demonstration of ongoing financial needs (OFN). How is this different from the



Source: The Gold Standard

Quality assurance: the Gold Standard seeks to represent best practice for carbon trading.

already existing rule for pre-2016 projects to demonstrate “risk of discontinuation” and why are you proposing it?

A. The purpose of carbon finance is to support and make possible mitigation activities that would not have occurred in the absence of that revenue stream. This is a fundamental tenet of carbon markets.

What we’ve seen is that some activities that required carbon finance when they first started have now become financially sustainable without this revenue, for instance because technology costs have fallen. This is a good thing. Our goal is to ensure carbon finance goes where it’s most catalytic in accelerating decarbonisation.

Gold Standard already requires information on a project’s ongoing financial need at the time it renews its crediting period. But we have proposed making that a formal decision-making criterion in the crediting period renewal process, as a safeguard to ensure credits are only being issued to projects that continue to rely on the revenue from their sale. This serves the core purpose of the carbon market and avoids unfair competition of vulnerable projects with those that are independently financially viable.

For projects from other certification systems, including the Clean Development Mechanism, that started operations prior to 2016, we already require demonstration that the project is at risk of discontinuation when they apply to transition to Gold Standard. This is a different assessment process but with the same broad purpose. One



Source: The Gold Standard

Beneficial: Gold Standard projects come with additional sustainable development benefits.

methodology to assess this risk has been developed by the New Climate Institute.

Q. In the context of carbon credits being used for voluntary carbon offsetting, you are clearly opposing any notion of double claiming. Could you explain why double claiming is an issue, when we are considering voluntary action by companies?

A. Gold Standard, like many others in civil society and beyond, have recognised for several years that there is a risk of double claiming between the voluntary market and national NDCs. In our recent consultation, we outlined our proposal for how to address this risk: introducing a requirement over time for ‘corresponding adjustments’ to be applied by host countries when a carbon credit is to be used towards a voluntary offsetting claim.

When a company offsets its emissions, it is essentially making a claim that the atmosphere is no worse off as a result of its purchase of credits. It has emitted a tonne of CO₂, but it has counteracted this by paying for a reduction or removal elsewhere.

Take a scenario where a government has committed to reduce its emissions by 20% by 2030 from a 1990 baseline. That government allows voluntary market projects to take place and counts the reductions or removals that they generate towards its NDC, at the same time that they are sold as carbon credits. The emissions impact of the projects helps the government to meet its NDC. In some cases, it could mean that the government decides to take less action than it otherwise would have done, as it can meet its NDC without introducing

or strengthening other policies or measures, perhaps elsewhere in their NDC.

The NDC has been met in this case, which is good. But what matters here is the claim that the company buying the carbon credits is making. If they claim these as 'offsets', they are saying – as above – that the atmosphere is no worse off. When in fact, it is possible that voluntary projects in the country have displaced other action that would have otherwise been taken to meet the NDC, and that could have achieved the same emission impact.

That is why we consider a corresponding adjustment, which removes the possibility of this type of double claim, to be necessary for offsetting: to ensure that voluntary action comes in addition to host country efforts and that we can be sure the intent behind the claim is achieved.

There are of course other ways that the promise of offsetting can be undermined, such as weak additionality or a poorly defined baseline. It's important that these things are also addressed as an adjustment does not provide guarantees for these related issues.

Q. Could you outline how double claiming in the context of offsetting is different from double claiming in inventory reporting (when a company with a voluntary mitigation target is also contributing to the national inventory of the country in which it is based)?

When a company voluntarily reduces its emissions directly and this contributes towards the NDC of the company's host country, there is truth to both claiming the reduction for their respective purposes. The distinction for offset claims, as described for the previous question, is that we cannot be sure that the intent behind the claim has truthfully been achieved if it can also be counted towards the host country's NDC. This can be addressed by a corresponding adjustment, or

by changing the nature of the claim as we talk about in our consultation.

Claims aren't just semantics. They are necessary to maintain trust in the market. As a carbon market standard that issues credits, we take responsibility to ensure that buyers can purchase Gold Standard credits and make claims with integrity and confidence.



Source: The Gold Standard

Clean energy for all: 400 MW Gold Standard solar power project in Rajasthan, India

Q. You are proposing a staggered approach for corresponding adjustments. While all new projects based in developed countries will have to provide a confirmation for the future application of CAs, projects based in developing countries will only have to provide such a confirmation for credit vintages starting 2023 (Projects in LDCs, SIDS, LLDCs and conflict zones: 2025). Why have you chosen these dates and how do they align with domestic progress as well as processes under the UNFCCC?

A. As we've outlined, we consider corresponding adjustments to be necessary when carbon credits



Source: The Gold Standard

Improving family health: the GS Kenya Biogas Programme provides a fast and smokeless way of cooking. Leftover slurry is an excellent organic fertilizer that improves crop yields.

are used towards voluntary offsetting claims. We recognise though that it will take some time for many governments to build capacity and procedures to approve and apply these adjustments.

We have therefore proposed a staggered introduction of this requirement based on countries' development status – and in the case of LDCs, LLDCs, SIDS and conflict zones, an assessment of whether circumstances allow. This is clearly important to get right, and we are actively interested in stakeholders' views and feedback on the most appropriate approach and criteria. We will of course also fully respect the wishes of host countries, if they require corresponding adjustments to be in place earlier than our timeline.

Like others, we hope that UN negotiators are able to adopt Article 6 guidance at COP26 this November, and any further guidance required the following year. Our dates have been proposed

with this timetable in mind, considering reasonable timeframes for national regulators to put in place or align domestic processes once decisions have been made at the international level. If Article 6 negotiations fail again this year, we may need to look again at our proposals. This is just one example of the importance of governments finding agreement this November, to reduce the uncertainty holding back market activity.

Q. Gold Standard has discussed a financing model that allows companies to invest in projects by purchasing “quality carbon credits” that are not backed by CAs. At first sight, there are commonalities with the approach by VERRA, which also proposes to introduce two different kind of ‘credits’, one backed by CAs and one without CAs. However, and in stark contrast to VERRA’s proposal, you are suggesting that credits not backed by CAs cannot be used for offsetting claims, while VERRA opposed the idea to regulate buy-

er's claims. How do you ensure that companies do not use these 'credits' for carbon neutrality claims? And more broadly, how do you ensure that these two type of credits are not conflated? As 'credit' has in the past indicated ownership of emission reductions, would an alternative term (support units or statements) be better suited?

A: Abdicating responsibility for how the market uses Gold Standard credits is simply not something we're prepared to do.

Gold Standard will clearly differentiate in our registry between carbon credits for which a corresponding adjustment has been committed, and those without such a commitment and will publish associated claims guidelines. This will enable buyers to purchase and use credits appropriately for different purposes, whether that is in the voluntary market, CORSIA or domestic compliance regimes. All Gold Standard credits will at their core still meet the same rules and requirements and represent the same degree of integrity and quality. The distinction is purely whether or not they have an associated adjustment.

We have taken this responsibility to ensure commitments to corresponding adjustments are in place where they are required, and that this is clearly indicated in our registry and in claims guidance. But it's clear we cannot police the entire market, nor is it our role to do so. This shift also requires collaboration among other market participants, including buying entities and those who facilitate this. We expect others will take seriously the importance of credible claims, and – as always – that external scrutiny will be applied where credits are not being used with integrity.

Q. In the debate about avoiding double claiming within the VCM, many stakeholders have raised concerns about the risks associated to corresponding adjustments, including technical challenges but also related to corruption. Gold Standard is currently exploring different

safeguards to address these concerns. Are you also exploring ways on how to deal with the risk that the host country might not achieve its NDC and the credits issued will therefore no longer be backed by robust accounting?

A. Absolutely, this is an issue that Gold Standard is considering carefully, as of course are other standards that will serve CORSIA. We are considering the different options to safeguard against such risk and will consult with stakeholders on proposed solutions.

Taking a step back, it is understandable that concerns exist about corresponding adjustments. This is a new process for which there is no practical experience to point to. But it is by no means an unsurmountable obstacle: the larger voluntary standards have in the past few years worked together on the processes and guidance for corresponding adjustments in the context of CORSIA, much of which is directly applicable for other applications like voluntary offsetting.

So, many of the solutions are there. What we need now is for host governments to put in place the necessary processes as soon as practicable. There is a huge opportunity for those who move first to do so, in particular where their participation in Article 6 is clearly aligned with plans to achieve their NDC, as well as with their long-term climate and development strategies. In some cases, there will no doubt be an important role for capacity-building to enable this to happen, and we hope programmes or activities come forward to support this.

On our side, Gold Standard will do what we can to support the transition to this 'new normal', including through practitioners' guidance for the transition of the voluntary carbon market that we will release later this year. This is being developed with support from the German Ministry of the Environment (BMU) and in partnership with atmosfair.

Focus on the Essentials

Observations beyond the crunch issues of Article 6 in the run up to Glasgow

by Thomas Forth, Advisor to BMU

There is no automatic provision in the UNFCCC process that enables Parties to finalize the Article 6 Rule Book at the upcoming COP26. Thinking about the broader context and the basic role of carbon market mechanisms may help find landing ground ahead of Glasgow. When ministers meet at COP26, instead of focusing on the nitty-gritty details of mechanisms, they should have the opportunity to find the right balance between Parties. The following observations may help in taking a step back from the table and concentrate on the things we must achieve quickly and enable an early start for the Article 6 mechanisms.

Observation 1

UNFCCC negotiations under pressure

Glasgow is not just another chance to get market rules right – time is running out where the first NDC period is concerned. If Article 6 decisions are postponed again, it will challenge the political relevance of UNFCCC led mechanisms and the practical value of Article 6.4. This reasoning is based on reality given that alternative cooperation modes for the international carbon market are still in their starting blocks. VCM, CORSIA and Article 6.2 are available in principle, but the latter without UNFCCC oversight and possibly even without guidance. COP26 will thus bring us to a crossroads, hoping that the junction to Article 6.4 is open. My observation is that the pressure this puts on the negotiations is still not being taken seriously. Perhaps we should remind ourselves of

Mikhail Gorbachev's wise words on timing: 'Those who are late will be punished by life itself'.

Observation 2

The return of offsetting

Since the backlash of Copenhagen, CDM offsetting markets have experienced a severe depression and others have not developed or emerged. But step by step, the situation is taking a totally different turn. The first reprisal came with CORSIA and a substantial demand for emission reduction units of more than 2.5 Gt CO₂e up to 2035. The second reprisal is seen in the net-zero claims of companies by mid-century or earlier. Expectations regarding the contribution to climate neutrality by offsetting activities are extremely high. The Mark Carney report envisaged an increase in voluntary carbon market-related financial flows, up from USD 300 million to USD 1.5 billion annually up to 2030. Looking at the longer term, some have said that an annual 10 – 20 Gt of removals would be required in 2050 to achieve the balance of emissions and removals as set out in Article 4 of the Paris Agreement.

These high numbers of expected emission reductions contrast with the total emission reductions achieved nominally with the Kyoto mechanisms, with less than 3 Gt ERs accumulated up to the time the mechanisms terminate. It would seem that the debate on CDM transition is less important where numbers are concerned, but much more relevant in avoiding the construction failures of the CDM.



Source: Solar engineering trainer, Barefoot College, India by UN Women (<https://flic.kr/p/bVNmlL>) / Flickr / CC BY-NC-ND 2.0 (<https://creativecommons.org/licenses/by-nc-nd/2.0/>)

Train the trainer: host countries of mitigation activities need time and support for capacity building.

Drawing a conclusion on the future role of voluntary and mandatory carbon market mechanisms is simple. If we want to mobilize such an important contribution from carbon markets, we need to understand the dimension. Carbon markets should operate on a common set of accounting rules in order to create a global level playing field. There is no place for a separate world of the voluntary carbon market. My observation here is that the debate on the voluntary carbon market is important, but is sometimes narrowed to the interests of companies that would like to claim carbon neutrality quickly. A forward-looking business model, one that needs to build on the interest and role of host countries, is more or less described in Article 6.3 and Article 6.4 of the Paris Agreement.

Observation 3

Closer interaction between voluntary and mandatory carbon markets

Sometimes the asynchronicity of developments causes misunderstandings and fosters impatience between actors in different communities at national and global level. Lagging behind with UNFCCC decisions on the Paris rule book is de facto a hinderance to the growing readiness to take climate action on the ground – not only for the voluntary carbon market.

The main question is how these communities could better interact and encourage each other to move faster in taking climate action. A precon-



Source: Renewable Energy by Bureau of Land Management (<https://flic.kr/p/MhkBAC>) / Flickr / CC BY 2.0 (<https://creativecommons.org/licenses/by/2.0/>)

Cooperative effort: is the role of the carbon markets understated?

dition for smooth interaction is mutual understanding. One argument brought forward very recently was that the voluntary sector acts where states and governments are failing in combatting climate change. This comes as a surprise and might block the view on cooperation potential and the need for good public-private-partnerships to accelerate emission reduction strategies.

In some spheres of the VCM, a perception is dominant which could lead to a blind spot whereby the growing readiness of countries to use domestic and international carbon markets goes unnoticed. The move to carbon neutrality is not a blind spot among Parties – there is a growing readiness among countries to commit in that direction. In December, the UNEP Emissions Gap Report provided a good overview, showing that 126 countries accounting for 51 percent of global GHG emissions have net-zero goals that have been either formally adopted or announced or are under consideration. For the G20 there are currently 13 countries on this track.

This is really encouraging and primarily about domestic achievements, while international carbon markets play a supplemental role of acceleration and enabling domestic mitigation outcomes. The UNEP Emissions Gap Report

2020 also calculated the magnitude of emission reductions achievable with the actual conditional NDC of 3 Gt CO₂e in 2030, which is about 10 percent of the remaining gap of 32 Gt CO₂e in the below 1.5 °C pathway. My observation is that the role of carbon markets is extremely understated and the change could result from combined action by market actors.

Observation 4

Host countries need time and support for capacity building

Having mentioned patience and mutual understanding in my previous observation, this is important but not a narrative for being in-active. Of 51 updated NDCs submitted up to February 2021, 41 declare that they are open to participating in cooperative climate action under Article 6 (for more details, see the article ‘A Slightly Positive Trend’ elsewhere in this issue). Interestingly, only 3 percent of the updated NDCs signal a positive reference to the CDM, according to the UNFCCC NDC synthesis report. That should be encouraging for all in building the necessary communication channels with host countries.

While carbon market rules resulting from the Paris Agreements ask for greater host country influence, the need for capacity building and the costs of internal preparation are still not sufficiently recognized. Serious requests for host countries to make efforts in advance, perhaps to allow for a quick match of mitigation activities or to develop long-term strategies (LTSs), will lead to delays and mismatches. Support for capacity building is needed from those wanting to conduct mitigation activities on the private and the public side of the acquiring Party.

My observation is that host countries are depending too much on the readiness of the acquiring side and not having access to international resources. When negotiating, Parties should provide resources for the implementation. The CDM reserve should be partly used for such purposes. One option known from experience with the carbon market is the CDM fee or a tax host Parties could impose. And regarding the counterargument of competition between host countries as a race to the bottom, the question of a “sellers’ club” could well arise, but buyers should also engage. The focus is on cooperative approaches, including the Article 6.4 mechanism.

Observation 5

Carbon pricing – cheapest isn’t best

In developed countries many climate activists believe in high prices for carbon. This high price thinking is also crucial in achieving a fair and functioning international carbon market. However, at first glance, the hope of high carbon pricing is constantly in contradiction to underlying market logic, which is about saving money. The cost saving function is needed to create incentives on the carbon market, otherwise the market wouldn’t work.



Source: Photo by IISD/Kiara Worth (enb.iisd.org/climate/cop24/enb/8dec.html)

In the huddle: UNFCCC negotiations in Glasgow this year are to deliver on Article 6.

My observation is that carbon pricing in international markets requires deeper insight and analytical work. Under the policy consideration, the direction of price building is easy. The pricing must be fixed on a level playing field which is created by the ambition-raising provision of Article 6.1 of the Paris Agreement. Host countries must develop strategies which enable them to identify the costs of concrete cooperative approaches and compare them with the costs of alternative options under subsequent NDCs.

However, in my view, price building under the Paris Agreement is completely different to the CDM and this is a lesson that must be learned for markets and acquiring Parties. An intriguing story about the old best-selling emission reduction units from the Kyoto mechanism for developed countries told in a Carbon Pulse article in March 2021 highlights what we do not need in the future: secondary market trading at a price of USD 0.04 for units which do not even represent real GHG emission reductions.

A Slightly Positive Trend

Recent NDC updates show increased interest in market-based cooperative action

by Victoria Brandemann, Christof Arens and Nicolas Kreibich

The recently published NDC Synthesis Report has brought a great deal of attention to the latest submissions of updated NDCs, which Parties are required to hand in before the next UNFCCC climate summit. The general news was disappointing. According to UN Secretary-General António Guterres, Parties are nowhere close to meeting the goals of the Paris Agreement. But how do market mechanisms fare in the recently updated NDCs? Which Parties intend to make use of the voluntary cooperation of the Paris Agreement, and has this number changed compared to the first round of NDC submissions? How many Parties plan to acquire transferred emission reductions? These questions are at the heart of a recently published Carbon Mechanisms Research paper, a summary of which is presented in the following.

The analysis looked at the 51 NDCs¹ submitted by Parties until February 28, 2021. This number represents 40% of Parties to the Paris Agreement, and therefore the analysis obviously can only be regarded as an interim exercise. However, some of the observed tendencies are worth taking note of.

Most Parties are open to using market mechanisms in the future

The overall result of the analysis conveys a clear message: most of the surveyed Parties are open

to participate in international cooperation under Article 6 of the Paris Agreement in the future (41 of 51 analysed NDCs). Only four Parties exclude international cooperation under Article 6 and six Parties do not mention market mechanisms in their NDCs.

Taking a closer look reveals a varying degree of interest in using market mechanisms. Of the 41 Parties “intending”, “considering” or “not excluding” the use of markets, most refer to Article 6, ‘voluntary cooperation’ or use other generic terms without providing further details (30 Parties in total). Some make explicit reference to Article 6.2 of the Paris Agreement or use the term ‘cooperative approaches’ (five Parties). Only two Parties mention the Article 6.4 mechanism (Brazil and Senegal) with another two Parties making reference to the CDM. While Japan refers to its Joint Implementation Mechanism (JCM), Suriname expresses its interest in non-market approaches under Art. 6.8².

When looking at the potential buyer and seller countries, a somewhat different picture emerges. Of those 34 Parties that either “consider” or “intend to use” market mechanisms (the yellow and green right columns in figure 2), only seven want to buy carbon credits while 18 Parties want to sell emission reductions. Who is going to buy the large offer of mitigation outcomes? The EU, so far being the biggest emitter among the submitted updated/second NDCs, has excluded any purchase

- 1 Counting the EU without UK as one Party. The analysis also includes the NDCs of Russia, Cambodia, Uruguay, Ecuador, South Sudan and Brunei although these Parties only submitted their “first NDC” instead of second or updated NDCs.
- 2 Depending on the terminology, one can arrive at quite different numbers: the term ‘cooperative approaches’, for instance, is by some Parties also being used to refer to Article 6 in general, in some cases even to Article 6.8. This lack of clarity might explain why in this and other cases described in this paper the recent NDC synthesis report finds a significantly larger numbers (UNFCCC (CMA), 2021).

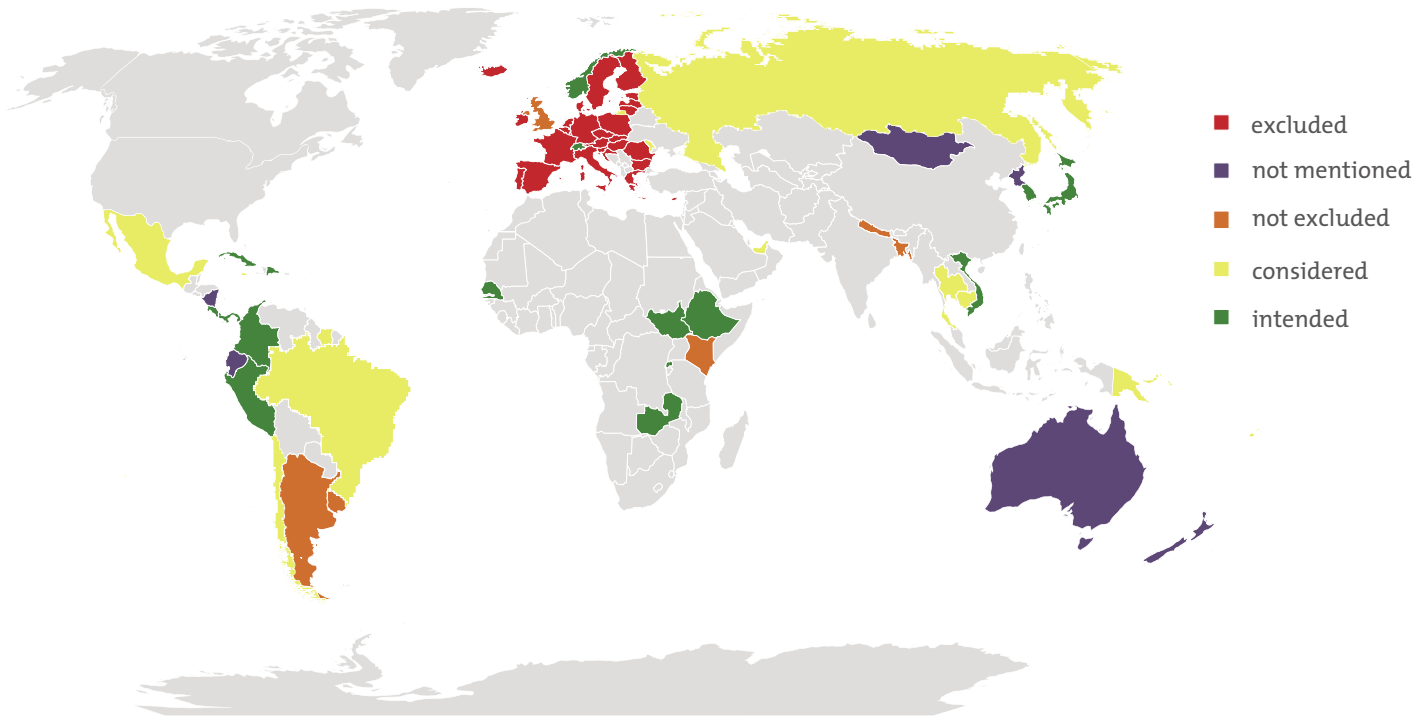


Figure 1: Overview of Party positions on market mechanisms in latest NDCs; Source: WI

of carbon credits for NDC attainment. Only two major emitters could be clearly identified as buyers of mitigation outcomes: Japan and South Korea. This trend was already observed in the first round of NDCs

submitted in the run-up to the Paris climate summit in 2015 (Oberassel and Gornik 2015).

Piloting vs. “making use of”

While the Article 6 rulebook is still under negotiation, a considerable number of Article 6 piloting activities are taking place across the globe. The UNEP DTU Partnership (2020) database lists a total number of 44 such piloting activities.

When looking at the NDCs of those Parties directly involved in piloting activities, the following observations can be made: while both Parties involved as a buyer (Japan and Switzerland) state in their NDCs their intention to use market mechanisms, the picture is less clear among those involved as host Parties:

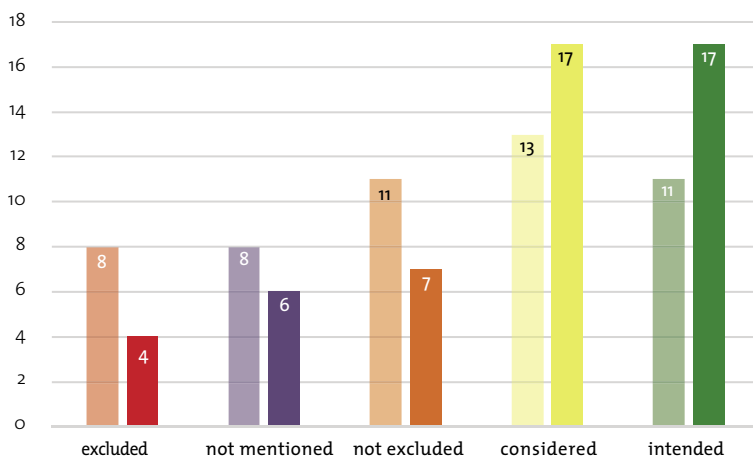


Figure 2: Comparison of market mechanisms in first (left) and latest NDCs (right). Source: WI

while none of the Parties hosting Article 6 piloting activities does explicitly exclude market mechanisms, there is, however, one Party that does “not mention” (Mongolia) and one Party that does “not exclude” (Kenya) the use of market mechanisms in their NDCs. While two Parties involved in piloting actions “consider” market mechanisms (Chile and Mexico), a majority of five Parties involved in piloting express their intention to use market mechanisms (Rwanda, Peru, Senegal, Colombia, Ethiopia). This might indicate that the mere fact that a Party is involved in piloting activities does not automatically mean that market mechanisms play a role in NDC implementation.

Comparing first and updated NDCs

A comparison of the 51 new or recently updated NDCs with the first NDCs of the same 51 Parties shows that market mechanisms find stronger resonance in the recent submissions. The latest NDCs indicate that less countries “exclude” or “do not mention” market-mechanisms and more coun-

tries “consider” or “intend” to use market mechanisms in the future. As can be seen in Figure 2, 35 Parties in previous NDC submissions “intended”, “considered” and “did not exclude” voluntary cooperation, while today the numbers in these three categories add up to 41 Parties.

How have Party positions changed? When comparing the interest in market mechanisms voiced in the first and recently submitted NDCs, the analysis shows a slightly positive trend: Figure 3 shows that of the 51 Parties analysed, 20 express more interest in market mechanisms than in their first NDCs. About half of the countries (27 of 51), however, did not change their position on the use of market mechanisms.

Four negative changes could be observed: Nepal, for example, changed its language on market mechanisms from “aims to put in place forest carbon trade and payment mechanism” (Government of Nepal, 2016) to “Nepal may explore potential markets that allow higher mitigation ambition while promoting sustainable development and environmental integrity” (Government of Nepal, 2020). New Zealand, Mongolia and Nicaragua simply do not mention market mechanisms anymore in their updated NDCs, although they “intended” or “considered” the use of market mechanisms in their first NDCs.

- positive change
- no change
- negative change
- no submission

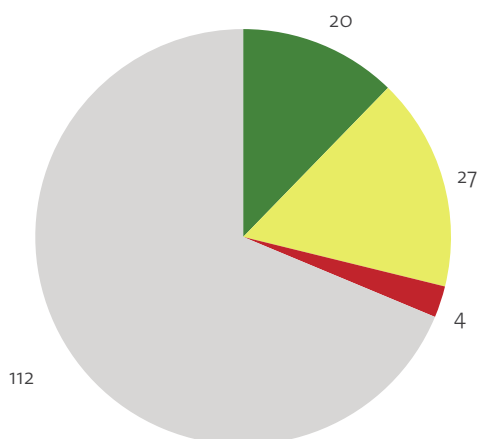


Figure 3: Change in Party positions regarding market mechanisms compared to their first NDCs; Source: WI

Keeping all options on the table

In summary, the findings indicate that Parties are slightly more positive towards using market mechanisms but remain vague when it comes to detailing their intentions. Most Parties seem to want to keep all options open at this stage. Moreover, the tendency towards oversupply observed in 2015 was confirmed. Of the 34 countries that “consider” or “intend” to use market mechanisms, only Switzerland, Singapore, Monaco, UAE, South

Korea, Norway and Japan mention interest in acquiring emission reductions.

However, with “corresponding adjustments” and other crunch issues still being unresolved, much progress in the NDCs on market mechanism use was unlikely to happen. The new Paris Agreement architecture puts Parties that did not have mitigation targets before in a new situation, having to consider the impact sold mitigation outcomes might have on the attainment of their own mitigation targets. Since most second and updated NDCs contain very vague wording on market mechanisms, it is not clear if these new circumstances and their implications have already been fully understood and integrated into the positions of the 51 analysed Parties.

This underlines the need for the Article 6 negotiations to develop more clarity on the functioning of market-based mitigation action under the Paris Agreement. Without such clarity, Parties cannot take a clear stance towards market mechanisms and the potential these might bring as a tool for NDC attainment.

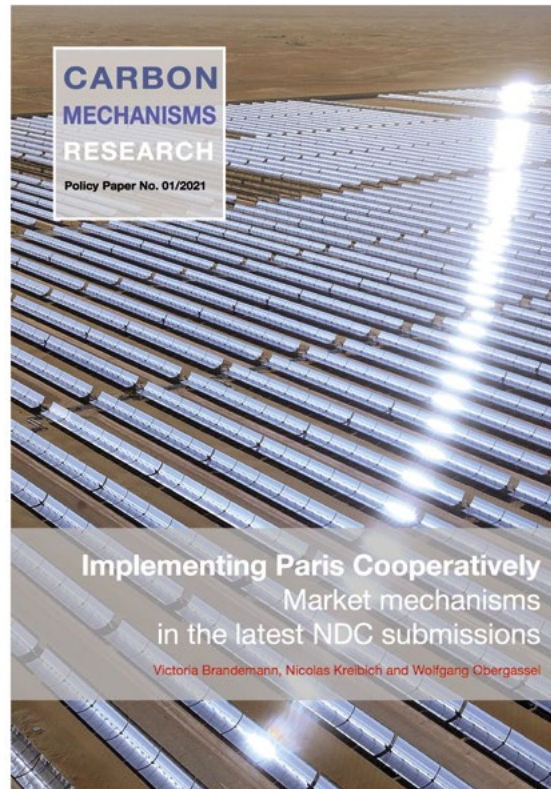
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Further information

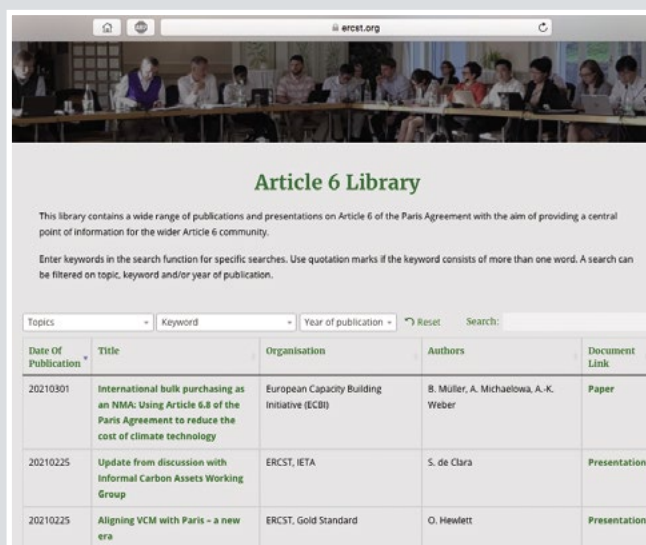
This text is a summary of a recent Carbon Mechanisms Research policy paper:

Brandemann, V., N. Kreibich and W. Obergassel (2021): Implementing Paris Cooperatively. Market mechanisms in the latest NDC submissions. Carbon Mechanisms Research, Policy Paper 1-2021. Wuppertal Institute for Climate, Environment and Energy. Wuppertal.

Download at:
www.carbon-mechanisms.de/PP_o1_2021

New Article 6 Community Centre and Library

In the current transition towards international carbon markets 2.0, the European Roundtable on Climate Change and Sustainable Transition (ERCST) is facilitating an informal dialogue between Article 6 negotiators to provide a platform where negotiators can discuss the remaining issues under the Article 6 Rulebook. While negotiators are key in setting the rules, a wider community of stakeholders including government officials, regulators, civil society, and private sector actors also play an important role in the implementation of the post-2020 market mechanisms under Article 6 of the Paris Agreement.



ERCST wants to bring this wider community together by organizing webinars with leading thinkers and practitioners on a regular basis. The goal of these webinars is to tackle different interesting topics and facilitate knowledge building within the community. They present an opportunity for stakeholders to find out about the latest developments and initiatives around an international carbon market 2.0.

Article 6 library: a collaborative information pool

To support this effort, ERCST has developed an Article 6 Library to provide a central source of information to the community. The library holds documents from a broad range of leading multilateral organizations such as the World Bank, ADB and OECD, as well as research institutions, project developers and governmental organizations. The library can be used as a tool to conduct research, inform decision making and disseminate knowledge products.

The library contains publications such as papers, reports, articles and magazines. In addition, UNFCCC documents relevant for Article 6 are included, such as the three versions of the Presidency text on matters related to Article 6 from Madrid, the draft Decision on the Transparency Framework and the Paris Agreement text.

The library is available at:
<https://ercst.org/article-6-library-2/>

Facilitating knowledge building

Going forward, this library will continue to grow as new documents will be published and added to the list. Please feel free to reach out to us if you have Article 6 documents that should be included into the library. Do contact us if you are interested to participate in the upcoming Article 6 webinars or follow ERCST on social media.

Find all relevant information online at
<https://ercst.org/>

Transition Options

How to treat projects and mitigation outcomes from the CDM under the Paris Agreement

by Frank Wolke, German Environment Agency (UBA) and Lambert Schneider, Oeko-Institut

The rule book for Article 6 of the Paris Agreement (PA) is one of the essential missing components needed to fully implement the PA. The UNFCCC negotiations in Madrid 2019 failed to reach a consensus on this. One critical unresolved issue has been the treatment of projects and mitigation outcomes from the Kyoto Protocol's Clean Development Mechanism (CDM). The complexity of this issue derives from the fact that not only does the CMA have to determine rules for the new mechanism established under Article 6.4 of the PA, but that the CMP as the body overseeing the CDM also has to adopt decisions to enable and facilitate any transition options.

In this situation, the postponement of COP26 has led to even greater unclarity about the future of CDM processes. We now face the beginning of the Paris era and the end of the second commitment period of the Kyoto Protocol without formal decisions by Parties on how to proceed. The CDM Executive Board has, however, been confronted with requests from project participants to register projects and renew crediting periods for the period after 31 December 2020 and had to find a way to deal with such requests. In its last meeting of 2020, the EB agreed a set of temporary measures. These measures avoid any precedence and acknowledge the authority of the CMP to decide on these matters. The EB stressed the need for CMP guidance on this matter and listed core aspects to be solved by the CMP.

CDM temporary measures

What temporary measures has the EB taken? In summary, the EB decided to analyze but not to finalize any requests by project participants relating to the period after 31 December 2020, including requests for project registrations, requests for renewal of crediting periods or requests for issuance. These requests will continue to be processed and analyzed but any outcome of the EB analysis will be reported as "provisional" and will only be finalized by the EB following guidance from the CMP. The inclusion of component project activities (CPAs) with a start of the crediting period on or after 1 January 2021 in programmes of activities (PoAs) is also subject to the temporary measures agreed by the Board.

With regard to the global warming potential values of converting emission reductions achieved on or after 1 January 2021, the lowest 100-year values from the various IPCC assessment reports will apply. Registration fees or a share of proceeds for administrative expenses will not be charged pending CMP guidance (see EB108 Meeting report para. 6 ff). In addition to this general agreement by the EB, other technical issues on the concrete implementation of these temporary measures were clarified at the EB109 meeting in March 2021. Besides procedural clarifications, for example with regard to the understanding of the start date of the crediting period for projects under temporary measures, the EB decided that registration of new afforestation and reforestation activities is not possible without further guidance from the CMP.



Source: Batti/UNFCCC 0916/Methane Recovery and Utilization Project at TSH Kunak Oil Palm Mill

Greened production: a CDM methane recovery and utilisation project in Malaysia.

For projects that fall partly in the period until the end of 2020 and partly in the period from 1 January 2021 onwards, the monitoring and verification results will be clearly separated.

As the CMP has to decide on any transition issues, the EB has also specified the matters that the CMP would need to address if the CDM should continue to operate (see Annex to the EB108 and EB109 meeting report). These include:

- What global warming potential values should be used to determine CO₂ equivalents
- The technical options that would be needed to issue certified emission reductions (CERs), such as what commitment period identifiers should be used
- What modalities and procedures are applicable for afforestation and reforestation projects, including the issue of expiry and replacement of tCERs issued for the second commitment period and replacement of lCERs.
- The technical options with regard to the CDM registry that would be needed in order to enable issuance of CERs for emission reductions occurring after the end of the second commitment period for voluntary purposes.

Thus, necessary decisions by the CMP for any continuation of CDM processes have been defined. From a broader policy perspective, all of these technical issues are dependent on, and have to be embedded in, the decision by the CMA on any transition of CDM activities or the use of its CERs to achieve NDCs. The Madrid negotiations

have shown that it is a prerequisite that the CMA agrees on rules on Article 6.4 before the CMP can decide on matters related to the CDM.

What needs to be decided by the CMA?

Where do we stand here in the negotiations? Draft decision texts were elaborated but the CMA could not reach a consensus and only made note of these documents. However, these in-session documents include possible options for a transition and differentiate between the transition of CDM activities and the transition of CERs.

Transition of activities

The draft texts foresee the possibility of transitioning project activities into the new Article 6.4 mechanism, subject to host country approval for such a transition and the compliance of the project with the rules of the Article 6.4 mechanism, including provisions on the application of corresponding adjustments. Projects that are transitioned could continue to issue credits although emission reductions achieved after 31 December 2020 would be issued under the Article 6.4 mechanism. A transition of an activity must be completed by 31 December 2023. Until this date or until the end of the current crediting period of the project (whichever is earlier) a transitioned project may also continue to apply approved CDM methodologies.

Up to now the draft texts (unlike those for CER transition, see below) do not include options on project type or vintage restrictions as requirements for the transition of project activities, although such criteria could be worth reflecting on. Under CORSIA, for example, the eligibility of projects depends on a vintage date of 2016.

With regard to any differentiation between project types, the question of whether projects

are at risk of discontinuing mitigation without carbon credits (referred to as 'vulnerability') may be considered as an additional criterion for a transition. Research results show that the need for ongoing revenues from sold credits in order to continue mitigation varies considerably between project types, regions and countries. For example, the rate of regular operation of the GHG abatement activity for existing CDM projects is understood to vary considerably, from 48% of methane avoidance projects to 93% of own generation energy efficiency projects. The variation between countries is even more prominent. While a large number of projects continue to operate without the support of market mechanism finance, there is a considerable risk of project discontinuation for some specific project types.

Therefore, the vulnerability of projects to the risk of discontinuing GHG abatement can be brought into focus when considering what type of projects should be eligible for transition. A focus on vulnerable projects may provide incentives for these projects to continue abatement and avoid generating carbon credits from activities that have sufficient other revenues in order to continue operation (see study "Vulnerability of CDM projects for discontinuation of mitigation activities", at: <https://www.carbon-mechanisms.de/en/publications/details/voluntary-offsetting-credits-and-allowances>)

If any non-vulnerable projects were eligible for transition, these projects should require a new additionality assessment based on the rules of Article 6.4. This approach would recognize that changes in circumstances since project inception may mean that the emission reductions may no longer be additional today. The full decarbonization of all sectors will require transformational change and avoidance of lock-in to carbon intensive technologies. Continued support for project types that will anyhow continue operation could delay rather than accelerate this transition.

Any transition of CDM projects into the Article 6.4 mechanism would in consequence need new analysis and approval of such activities by the host Party and the new supervisory body. To speed up this process, the transition of accompanying administrative processes from the CDM could foster a prompt start of Article 6.4 activities. For example, the CMA could consider a provisional transition of the CDM accreditation system and the current accreditations of DOEs. Unlike using the CDM's methodological standards, a transition of the accreditation system does not bear inadequate risks for the integrity of the new mechanism. With regard to methodological standards, the Article 6.4 supervisory body may build on the existing standards and adapt them as appropriate.

Transition of credits

The transition of CERs from emission reductions achieved up to 31 December 2020 is also subject to restrictions in the draft negotiation texts, including what CERs may be eligible for transition and for how long these CERs may be used towards NDCs. This has to be distinguished from the

aspect of transition of activities, as the transition of CERs does not lead to a continuation of the underlying projects but would just make CERs eligible in the Paris scheme under certain conditions, regardless of the fate of the project.

The negotiation texts foresee a use towards the NDC of the CDM host Party or a participating Party under specific circumstances. On the political level, the date up to which such CERs may be used will probably become very sensitive. Discussions in Madrid raised dates like the end of 2023 or end of 2025. Furthermore, not only will this cut-off date be relevant, but also the decision on whether the transition only applies to emission reductions from projects with a specific vintage date.

Prompt start of Article 6.4

The approval of former CDM project activities by the supervisory body of the Article 6.4 mechanism could build on the temporary measures agreed by the CDM Board. As requests for registration, renewal of crediting periods and issuance of CERs for the post-2020 period continue to be analyzed



Source: Wenju/UNFCCC 1320/Beijing Taiyanggong CCGT Trigeneration Project

Trigeneration: a CDM natural gas-fired combined cycle power plant in Beijing supplies both electricity and waste steam for heating and cooling.



Source: Ibrahim/UNFCCC Photo Contest/CDM 2897

New for old: CDM Vehicle Scrapping and Recycling Program, Egypt

under the temporary measures, these requests might be processed faster by the supervisory body of the Article 6.4 mechanism, given that they have already passed an initial scrutiny check.

However, a fast-track approval of current CDM projects would require preceding decisions by the CMA. These would need to address several matters:

- 1. The type of projects eligible for transition:** To promote ambition and environmental integrity, the CMA could decide that only projects that are vulnerable to the risk of discontinuing GHG abatement are eligible to transition to the Article 6.4 mechanism. This would ensure that the limited demand for CERs supports those projects that are most in need of such support in order to continue GHG abatement.
- 2. The conditions that projects need to satisfy to transition:** As in the current draft negotiation text, the CMA could decide that the host Party needs to approve any transition and that transitioned CDM projects need to comply with all requirements of the Article 6.4 mechanism. This should include a reassessment of additionality, updates to the baseline and reconsideration of the length of the crediting periods. Compliance with all new rules could be subject to a grace period.

A grace period could, for example, allow the continued use of existing CDM methodologies for a specific period. A grace period has the disadvantage that it could delay overcoming the shortcomings of the CDM and adopting more robust and ambitious rules that are aligned with NDCs and the goals and principles of the Paris Agreement. But as long as

the grace period is only a few years (e.g. until 2023), it may be reasonable to not require a completely new assessment and update of CDM projects. It would still be at the discretion of Parties to use such older projects for their purposes or build on new activities under Article 6.4.

In the longer run, a thorough analysis and revisions of CDM methodologies in order to ensure that they foster the targets of the Paris Agreement and reflect the CMA decisions on the Article 6.4 mechanism will be an important priority to make all of this work. In this regard it has to be carefully considered whether the currently most-used CDM methodologies on renewable energy sources – ACM0002 and AMS-I.D (roughly 70% of all CDM projects) – match with the new rules and the Paris Agreement regime.

3. **Timeline for completing the transition process:** Any transition of CDM projects should be completed within a certain timeline (e.g. 2023 or another date).
4. **How long may transitioned CDM projects continue to generate credits:** Many project participants have started their activities with the expectation of or with contracts that ensured revenues from carbon credits only for a limited period and took this into account when planning the financing of an activity. A transition of CDM projects must thus take this background into account. Consequently, the crediting of transitioned activities may be restricted to a fixed deadline (be it 2023 or some other date) or the end of the current crediting period of the project, whichever is earlier.
5. **The CDM processes and institutional arrangements that may be transitioned:** Some CDM processes and institutional arrangements could be transitioned to the Article 6.4 mechanism with only small modifications. This holds, for example, for the CDM accreditation system.
6. **The process of transition and collaboration between the CDM Executive Board and the Article 6.4 supervisory body:** The CMA may also facilitate any transition by clarifying how these bodies should work together to facilitate a smooth transition. For example, any CDM projects that are transitioned to the Article 6.4 mechanism would need, in parallel, to be deregistered under the CDM.

Whatever Parties decide in Glasgow, a coherent approach is needed between CMA decisions on the transition of the CDM into Article 6.4 and comparable decisions by the CMP to pave the way for the implementation of any transition decision. Bearing in mind that the postponement of COP26 will definitely increase the workload in the coming negotiation round, finding consensus at UNFCCC level on all of these issues is challenging to say the least.



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CARBON MECHANISMS REVIEW



Aligning Agendas - Documentation available

A set of recent webinars explored synergies between ambitious and transformational Article 6 activities and sustainable development impacts. View the documentation at : www.carbon-mechanisms.de/en/news-details/aligning-agendas

Carbon Pricing in Chile Booklet Series

New series of GIZ resources explains key aspects of the design, implementation, and development of carbon pricing instruments in Chile. Download at: www.carbon-mechanisms.de/en/Chile

Glossary

All Carbon Market terms and abbreviations are explained in detail in our online glossary. View it here: <https://www.carbon-mechanisms.de/en/glossary>