

**Chair's summary, informal consultations/informal technical expert dialogue on
Article 6 of the Paris Agreement**

Clean Development Mechanism activity transition to the Article 6.4 mechanism

Background

In relation to Article 6 of the Paris Agreement¹, in the context of the June 2021 subsidiary bodies sessional period, the SBSTA Chair, Mr Tosi Mpanu Mpanu organized an informal consultation/informal technical expert dialogue on Clean Development Mechanism (CDM) activity transition to the Article 6.4 mechanism on 4 June 2021. The discussion was facilitated by Hugh Sealy of Barbados and Peer Stiansen of Norway. This summary is produced by the SBSTA Chair under his own authority.

This summary aims to capture possible options for further consideration by Parties and Heads of Delegation. It is informal in nature, has no status, and does not provide negotiation text. It does not attempt to provide a record of all views expressed during the dialogue and in submissions, nor indicate the support each of the options appeared to have.

In relation to the topic of the dialogue, as at 5 June 2021, 3 Parties and groups, and 1 group of observers had made informal submissions². This summary includes content from Party and group submissions and interventions that relate to options.

The informal consultations/informal technical expert dialogue

Parties indicated various views on CDM activity transition to the Article 6.4 mechanism. Interventions made, and some submissions, responded to guiding questions provided by the SBSTA Chair as follows:

Guiding Questions:

- Which actors need to take which steps to enable eligible CDM activities to transition to the 6.4 mechanism?
- By what deadline should CDM activity transition be completed?
- Which rules of the 6.4 mechanism could apply to transitioned activities immediately upon transition?
- Which accompanying decisions might be needed by the CMP to facilitate CDM activity transition?

General points

A number of general remarks were made, in particular about the context of the issue within the discussions on Article 6.

- Article 6 does not provide for transition of Kyoto Protocol Clean Development Mechanism (CDM) activities, and 1/CP.21 refers only to experience gained with and lessons learned from existing mechanisms and approaches adopted under the Convention and its related legal instruments. The Kyoto Protocol and the Paris Agreement are distinct international frameworks so CDM activities cannot automatically transition to the Paris Agreement.

¹ Documents relating to Article 6 negotiations since 2016 can be accessed here: <https://unfccc.int/process/the-paris-agreement/cooperative-implementation>

² <https://unfccc.int/process-and-meetings/the-paris-agreement/cooperative-implementation/submissions-informal-technical-expert-dialogues-on-article-6-of-the-paris-agreement#eq-5>

- The CDM is the product of the work of the UNFCCC, and the Paris Agreement and Kyoto Protocol are both within the UNFCCC regime, so the CDM is not from the outside. Past decisions should be honored. There could also be a decision from CMP to have a third commitment period of the Kyoto Protocol. The 6.4 mechanism is the successor to the CDM.
- The part of the third draft Presidency text covering this issue (paragraphs 72-74), had seemed settled, the SBSTA just needs to develop the implementation of CDM activity transition, for recommendation to the CMA on the understanding that adoption would be in the context of the wider package for Article 6 instruments.
- Any transition from the Kyoto Protocol to the Paris Agreement, including a decision on the status of ongoing mitigation activities under CDM post-2020, would need a clear agreement on the core elements of more ambitious implementing rules for Article 6.4.
- Uncertainty faced by investors in the CDM is a major issue to address. Transition of CDM activities gives confidence to investors and avoids a gap between CDM operations and 6.4 mechanism operations that would undermine ongoing mitigation activities. Confidence in the UNFCCC must be maintained, and a swift and smooth transition between the two mechanisms should be ensured to address the urgency of climate action.
- Instruments like the CDM have not been successful in fighting climate change and recycling those activities into the Paris Agreement should not be allowed and so there should be no transition of the CDM into the 6.4 mechanism. The 6.4 mechanism should enable Parties to achieve the temperature goal, keeping temperature rise below 1.5 degrees.
- The 6.4 mechanism should be strongly linked to the fulfillment of the Sustainable Development Goals and is not about markets.,.
- There will need to be condensed and continuous capacity building support for developing countries to support CDM activity transition and participation in the 6.4 mechanism. This would include support to determine the sustainable development contribution of the activity, to support processes for authorization and to assess the implications for the NDC.
- The decisions of the CMA and CMP on this issue should not be over prescriptive and space should be left for administrative efficiencies. Double governance should be avoided; a CDM activity should not be required to deal with two sets of rules (at the same time), and transition should avoid undue burden on CDM stakeholders.
- All Article 6 instruments must be implemented in a balanced manner, including all parts of Article 6.

Possible options for further consideration

Interventions focused on a number of possible options for enabling ambition in Article 6, that are set out below. In each case, the option has been introduced by at least one Party/group, but this summary does not seek to indicate how much support there is among Parties for each option, as Parties are familiar with the views expressed in submissions and interventions. Argumentation provided in the submissions or interventions to support the various options are set out *italics* and in abbreviated and consolidated form below the relevant option. Because of the topic at hand, the main options are not always mutually exclusive, in this instance.

This informal consultation/informal technical expert dialogue did not directly address other related matters such as any transitional/temporary use by the 6.4 mechanism of CDM standards, methodologies or accreditation standards, or infrastructure (see the Chair's summary note on ensuring rapid operationalization (Articles 6.2, 6.4, 6.8)), or the use of Kyoto Protocol units towards NDCs (to be covered on 8 June 2021). However, some points were raised in relation to those issues.

CDM activities that could transition to the 6.4 mechanism

A number of options were identified, which are not mutually exclusive:

- **All operational CDM activities with a current crediting period**

Argumentation: Investors should not be subject to discrimination; all have invested in their CDM activities and arbitrary eligibility criteria should be excluded. Continuation within the UNFCCC regime is the only reasonable and fair approach with regards to investors. No additional criteria should be added.

Argumentation: Allowing for continuation only of vulnerable activities would not be fair. Where a CDM activity is operational, as long as its operational costs do not exceed revenues, it will likely continue to reduce emissions, so excluding activities because they have overcome the original sunk costs of starting up would not be fair. So, all current operational CDM activities should be allowed to transition.

Argumentation: Requiring the CDM activities to re-demonstrate or re-qualify per the rules, modalities and procedures (RMP) for the 6.4 mechanism is effectively double governance and is too burdensome for project participants.

- **Only CDM activities that are described as vulnerable**

Argumentation: Only CDM activities that will not continue without the revenue from sales of CERs (vulnerable activities) should be transitioned as the others are not dependent on the CDM revenue to continue abatement.

- **Only CDM activities that meet certain standards**

Argumentation: The supervisory body should be tasked to develop extra criteria relating to baselines, environmental integrity, social standards, addressing-non permanence, cancellations for overall mitigation in global emissions (OMGE) and share of proceeds for adaptation (SOP) and recommend those criteria to the CMA for adoption at CMA.4. After that, CDM activities meeting those criteria could transition.

- **CDM activities that meet the requirements of the RMP**

Argumentation: A number of CDM activities should transition so that contributions to mitigation and to adaptation continue and investment is not hindered, but per draft third Presidency text paragraph 72 (b) it seemed in Madrid to be fairly settled that the RMP must apply to all activities. So CDM activities should only transition where they can meet the requirements of the RMP.

- **No CDM activities should transition**

Argumentation: Transitioning activities from the CDM undermines ambition of the Paris Agreement.

Argumentation: The 6.4 mechanism is a sustainable development mechanism and not a market mechanism and so CDM activities should not transition.

Conditions to transition for CDM activities

A number of conditions were identified, which are not mutually exclusive:

- **The project participants must actively request or express consent to the transition of their CDM activity**

Argumentation: The transition requires the informed and active consent of the project participants. Project participants should have to actively request transition.

Argumentation: Project participants would need to be informed of the eligibility of their CDM activity so that they may consent. They could be required to respond to a notification, for example, from their DNA, or from the 6.4 supervisory body (where there is consent of the DNA, see below), or the secretariat on its behalf.

- **The host Party must approve/authorize or provide a no-objection to the transition**

Argumentation: The host Party or DNA on its behalf must provide approval or no-objection to the transition. This can be done on a case by case basis, on the basis of sectors or activity types in that country or in respect of how much of that CDM activity's crediting period remains. The decision is up to the host Party.

Argumentation: The interaction of the CDM activity with the NDC and/or the long-term low greenhouse gas emissions development strategy (LT-LEDS) of the host Party and the shared benefit to the host Party would need to be assessed by the host Party before it approves/authorizes/provides no-objection to the transition. In particular, implications of the RMP provisions on avoiding double use would need to be understood by the host Party

- **Any Annex I Parties that provided a letter of approval must be informed**

Argumentation: Annex I Parties that approved participation of project participants in CDM activities should be notified of those CDM activities that may or will transition.

Application of the 6.4 RMP to transitioned activities

Interventions identified where application of the 6.4 RMP would be from the moment of transition of the CDM activity, or from some later point. These are set out below.

- **Time point for application of 6.4 methodology to the transitioned CDM activity**

Options were identified:

- **Earlier of the end of the crediting period or end of 2023**

Argumentation: the third draft Presidency text provides for the approved CDM methodology to apply until the earlier of the end of the crediting period of the CDM activity or the end of 2023 (see paragraph 73 (b)). This is still appropriate, but it means new 6.4 methodologies will need to be ready quickly, and this can be done by reviewing CDM methodologies, potentially through the SBSTA being tasked to do so. Widely used CDM methodologies and those with multi-country application should be reviewed first. Small scale and POA methodologies would also need prioritization.

- **CDM activity complies with RMP so from 1 January 2021**

Argumentation: The CDM activity that transitions has to comply with the RMP per the third draft Presidency text (paragraph 72 (b)) and that should include using 6.4 methodologies from 1 January 2021.

- **OMGE**

Argumentation: The requirement for OMGE applies immediately to all transitioned CDM activities.

- **Share of proceeds for adaptation**

Argumentation: It will be important to ensure that CDM activities that have transitioned do not pay a share of proceeds twice.

Argumentation: The 6.4 RMP for SOP will apply to transitioned CDM activities in the same way as to new 6.4 activities.

- **Share of proceeds for administration**

Argumentation: The CDM activity has already paid share of proceeds for administration at registration and should not be required to pay this/ a similar fee again when it transitions to the 6.4 mechanism.

- **Activity cycle, monitoring, reporting, verification, renewal of crediting period etc.**

Argumentation: These apply to the transitioned CDM activity upon transition.

- **Issuance**

Argumentation: The third draft Presidency text (see paragraph 73 (c)) provides that for CDM activities that have transitioned, 6.4 ERs may be issued for emission reductions achieved after 31 December 2020.

CDM activity transition deadlines³

A number of options relating to the time period for transitioning CDM activities were identified:

- **By the end of 2023, project participants should express a willingness/wish to transition their CDM activity to the 6.4 mechanism.**

Argumentation: It would be important to identify the number of CDM activities that wish to transition so that the total group of transitioning CDM activities and related future potential issuance volume is known. If these project participants are required to confirm willingness/wish to transition within, for example, two years, then the processing time for transitioning the CDM activity (see below) may not be as important.

- **Transition of CDM activities should be completed by the end of 2023**

Argumentation: This is the date for the true up period for the second commitment period of the Kyoto Protocol and so the transition should be completed by this date. It is the date in the third Presidency text.⁴

- **Transition by the end of 2025**

Argumentation: The draft third Presidency text was prepared in 2019 and envisaged the transition period to last about 4 years so assuming Article 6 decisions are adopted at CMA.3 in 2021, CDM activity transition should be completed by the end of 2025.

- **Transition by the end of the current CDM crediting period of the CDM activity**

Argumentation: The current draft third Presidency text provides for the CDM activity to continue to operate on the CDM baseline until the end of its crediting period or 2023 whichever is the earlier and for issuance of emission reductions after 2021 to be under the 6.4 mechanism, so it would be possible to provide that the transition is completed by the end of the CDM activity's current crediting period.

³ Note, these options are laid out based on some CDM activities being transitioned. None would apply if no CDM activities transition, per the last option in that regard noted above.

⁴ Note: The date by which it is possible to determine when the end of the additional period for fulfilling commitments for the second commitment period of the Kyoto Protocol will occur, known as the true up period end date, has not yet been set by the CMP.

- **Transition by the end of the first NDC cycle**

Argumentation: This would be a reasonable time period if the project participants had expressed their willingness/wish within a certain time period, including 2030.

- **Transition after the criteria have been developed by the supervisory body and adopted by the CMA**

Argumentation: If the option for determining which CDM activities may transition requires development of criteria by the supervisory body for approval by the CMA (see above), then the transition period depends on how fast the supervisory body is established and how long it takes for supervisory body to develop criteria and the CMA to approve the criteria.

Transition steps by key actors⁵

- **Project participants**

Step: If the project participants want to transition the CDM activity to the 6.4 mechanism, the project participant must request transition to the Host Party/DNA and/or 6.4 supervisory body.

- **Designated operational entities⁶**

Step: Perform any necessary validation or verification or other checks relating to transition depending on decisions of CMA in relation to transition.

- **Host Parties and designated national authorities (DNAs)**

Step: Paragraph 26(c) of the third draft Presidency text indicates that host Parties are to designate a national authority for the mechanism and to communicate that designation to the secretariat. This is the first step host Parties take. Host Parties would inform the secretariat whether the CDM DNA will be the 6.4 national authority, and if not, designate a new authority.

Step: Communicate, through that DNA, the approval/no-objection for transition from the CDM to 6.4 mechanism in relation to project participants and CDM activities.

Options for steps were identified:

- Step: Provide the additional information from the host Party required in the RMP

Argumentation: Provide the additional information required from the host Party that is required per the RMP. For example, how the activity helps the Party meet its NDC, its long-term low greenhouse gas emissions development strategy (LT LEDES), and contributes to sustainable development, and any methodologies applied. This step is required to show that the CDM activity meets the requirements of the RMP.

- Step: Meet the participation requirements and provide information per 6.2 guidance

Argumentation: Meet the participation requirements in the guidance for cooperative approaches and provide information in relation to the activity in the initial report or regular information. Provide information on corresponding adjustments in annual information/regular information.

- No other steps: Additional information not required and no requirement to meet 6.2 guidance

⁵ Note that these steps are laid out based on some CDM activities being transitioned. None would apply if no CDM activities transition, per the last option in that regard noted above.

⁶ Note that the issue of transition of DOE accreditation and use of accreditation is not covered here – see the Chair’s summary note on ensuring rapid operationalization (Articles 6.2,6.4, 6.8).

Argumentation: The 6.4 mechanism is not a cooperative approach and the host Party does not have to meet the requirements of the 6.2 guidance. The Party acquiring 6.4 ERs through an international transfer will have to provide this information as the 6.4ERs are ITMOs as they have been internationally transferred but the host Party does not.

- **Annex I Parties participating in transitioning CDM activities**

Step: Confirm whether their letters of approval for participation in the CDM activities that transition continue to be applicable for the transitioned activity and, if so, provide any further information as required by the RMP.

- **6.4 Supervisory Body**

Step: If requested to do so by the CMA, coordinate with the CDM Executive Board. For example, receive information from the CDM Executive Board relating to the CDM activities that may transition.

Step: Receive information from the secretariat on the approvals/authorizations/no-objections for CDM activities to transition.

Step: Receive requests from specific CDM activities to transition (potentially via the DNA/Host Party or secretariat).

Step: Adopt procedures for processing transition requests from small scale CDM activities and POAs in order to expedite the transition for these CDM activity types per paragraph 74 of the draft third Presidency text.

Step: Develop the documentation and templates to process transition of CDM activities.

Step: Address the registry requirements for receiving transitioned CDM activity information from the CDM registry.

Options for steps were identified:

- Step: Review the CDM activities to confirm whether they meet the RMP.

Argumentation: This step is required to show that the CDM activity meets the requirements of the RMP.

- No such step of reviewing transitioning CDM activities to see whether they meet RMP

Argumentation: If all operational CDM activities with a current crediting period are transitioning, then this is not required.

- **SBSTA**

Step: Undertake any further work requested by the CMA or CMP.

- **SBI**

Step: Undertake any work requested by the CMA or CMP.

- **CMA**

Step: In the context of the package of Article 6 decisions, adopt decision provisions setting out eligibility for CDM activity transition, applicable conditions, applicable timelines and establish a capacity-building programme as well as decisions enabling tracking of the transition process.

Step: Invite CMP to take note/endorse/enable the transition of CDM activities.

Step: Request from CMP information relating to CDM activities and the CDM registry.

Step: Invite Parties to make voluntary contributions to the Trust Fund for supplementary activities to contribute to the costs of operationalizing the 6.4 mechanism.

- **CMP**

Options for steps were identified in relation to CDM activity transition decisions:

- The CMP does not need to take any decisions in relation to CDM activity transition

Argumentation: The invitation to certain CDM activities to transition is a decision of CMA to be implemented by the supervisory body. The CDM activity has to meet the RMP and on that basis, no CMP decisions are needed.

- The CMP decision mirrors the CMA decision in matters relating to CDM activity transition

Argumentation: The CMP decision should take note/endorse/enable the CMA decision and provide the complementary requests to the CDM Executive Board, Designated National Authorities, Designated Operational Entities, the secretariat etc. to enable transition of the relevant CDM activities.

If there were to be CMP decisions related to CDM activity transition the following steps were identified:

Step: If invited by the CMA, take note/endorse/enable the transition of CDM activities.

Step: Address the requests for guidance from the CDM Executive Board in relation to the temporary measures adopted by the CDM Executive Board in relation to post-2020 emission reductions and activities seeking registration on or after 1 January 2021.

Step: Address what will happen to CDM activities that will not transition to the 6.4 mechanism.

Options for steps were identified, which are not mutually exclusive:

- Step: Allocate some of the surplus CDM trust fund and resources funded by the CDM trust fund to be used by the CMA for the 6.4 mechanism.

Argumentation: The surplus funds in the CDM trust fund and staff posts could be allocated to support operationalizing the 6.4 mechanism and managing the considerable transition workload.

- Step: Allocate surplus CDM trust funds to the Adaptation Fund

Argumentation: Any surplus funds in the CDM trust fund should be allocated to the Adaptation Fund. This is because the share of proceeds for administration have accumulated and exceed the revenue received by the Adaptation Fund.

- Step: Retain funds in the CDM trust fund

Argumentation: Funds cannot be diverted from the CDM trust fund while project developers are still stuck in the queue for CDM registration.

Argumentation: A third commitment period under the CMP could enable Annex I Parties to deliver needed ambition and address the investors awaiting registration under the CDM as well as the activities that are not transitioned.

- **Clean Development Mechanism Executive Board**

Step: If requested by the CMP (following a request from CMA to CMP), the CDM Executive Board could support transition of CDM activities through, renewing crediting periods of activities in the transition

period, allowing inclusion of CPAs during the transition period and maintaining the accreditation of DOEs, and potentially through assisting the supervisory body.

Options for steps were identified:

- Step: Following the transition, deregistration of the CDM activities that have transitioned.

Argumentation: The CDM Executive Board would need to deregister transitioned activities. This would avoid any risk of double issuance from the activity.

- Step: Automatic deregistration of CDM activities that have transitioned.

Argumentation: This should be automatic and avoid a burden on project participants.

- **Secretariat**

Step: The secretariat could inform the DNA of all CDM activities in their country, review which CDM activities are able to transition per the CMA decisions, inform the DNA of those CDM activities, receive information on which activities the DNA provides approval/no objection to transition.

Step: Before CMA.3, provide all Parties with the list of CDM activities that could be transitioned (e.g. have an active crediting period) and the future potential issuance volume of those activities.

Step: The secretariat could support project participants and DNAs manage the transition of the relevant CDM activities, including through the regional collaboration centers.

Step: As CDM registry administrator, ensure necessary information about transitioned CDM activities is moved from the CDM registry to the 6.4 mechanism registry.
