

Chair's reflection notes on ERCST's Article 6 workshop on January 25, 2021:

Article 6.4 methodologies and CDM transition

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This note is meant as an aide-memoire and reflects issues and a logic that has captured the attention of the Chair of the meeting that took place on January 25, 2021. It is in no way meant as a summary, or an endorsement by the author, or the participants in the meeting, of any of the issues or views captured in this note.

Article 6.4 methodologies and CDM transition

- There was a presentation on reviewing Article 6.4 baseline approaches in the draft texts and timelines for CDM project transition, as well as an analysis of CDM projects and methodologies after 2021. Key takeaways from the presentation were:
 - o In the draft texts, different baseline approaches are considered. However, current definitions are not specific enough to provide effective guidance for operationalizing. Therefore, there is a need to discuss more detailed definitions, as well as identify where differences remain and ways of addressing them.
 - o Experiences with baseline approaches in different market mechanisms, especially CDM, show similarities with approaches considered in the draft texts. As such, valuable lessons can be drawn from looking at these mechanisms in terms of how to treat technology-based, historical emissions and BaU approaches.
 - o Considering the timelines for CDM transition, about 1146 PAs and 2203 CPAs could be subject to the transition process, depending on the number of activities that will actually continue operating. According to the current draft text, these activities will need to comply with the Article 6 rules, modalities and procedures. Therefore, important to look at priority methodologies and understand what will be necessary to ensure a smooth transition from CDM.
- It was noted that a certain term for a baseline approach can have different meanings in different market mechanisms. Therefore, it is important that the text not only provides a term but also a detailed definition. Definitions should avoid being too general, risking issues with operationalizing the text and avoid being too detailed, going into operational language which is not what the CMA should do. Moving forward, the level of prescription that is considered balanced needs to be agreed upon, as well as whether the level needs to be the same for Article 6.2 and 6.4.
- Concerns were raised about the use of technology and benchmark-based approaches as it risks excluding projects that use old technologies from participating in mitigation efforts. Therefore, it is important to have nuanced definitions that take this into account. To progress this discussion, it was suggested that it should be possible to agree on overarching principles and a framework that details the Paris context, for example mentioning NDCs, long terms strategies etc. After setting this framework, the text can go into more detailed definitions. Such an approach could ensure that certain nuances are incorporated in the text while avoiding being too general in the actual definitions.
- In terms of CDM transition, optimism about the potential of CDM project activities to continue post-2020 is not shared by all as there is an expectation that host countries, faced with corresponding adjustments, will not allow CDM activities to continue.

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Potentially, CDM projects will also have to update their methodologies which will be very difficult to implement.

- Even though the draft text suggests that baseline approaches from all other existing market mechanisms should be reviewed, a strategy to prioritize and at the same time ensure continuity was proposed. One proposal on how to prioritize recognizes that it will take a long time to review all approaches at the same time and therefore priority should be given to most used and most problematic methodologies. An alternative approach would be to request project proponents to directly submit their PDD based on existing CDM methodologies after which the supervisory body can request the methodology panel to review that specific methodology in the context of the project. After the methodology panel refines the methodology, the project proponent can revise its methodology based on the adopted methodology from the supervisory body.
- Moving forward, two necessary sets of discussions were identified.
 - One discussion at the political level, looking at what needs to be different with this mechanism from the CDM. As all countries have commitments under the Paris Agreement, there will be fundamental differences with the CDM. This can be tied to the discussion on accounting with respect to the post-2020 mechanism and level of ambition. This way we can ensure robustness of certain aspects of the discussion while also looking for areas that can be more open to different options to facilitate the implementation and participation in Article 6 activities.
 - On the technical level, a discussion is necessary on the wording and definition of the range of options to clarify and send clear instructions. At the same time, it is noted that before an eventual agreement on the technical principles can be reached, it is important to assess the economic consequences of different approaches such as impact on carbon price and additional burden for project proponents.

Text reflections-

Working from v2 of the Madrid Presidency text one could distinguish the elements that need to be included; some overlaps between options A and B can also be identified and some provisions that may or may not be crucial at this stage of the discussion

- **Process for development and approval of methodologies:**
 - Participants, host Parties, stakeholders, Supervisory body
 - Specification of methodological approaches by host Party according to 27 (a)
 - Methodologies need to be approved by the Supervisory Board

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- Standardized baselines and/or regional and/or subregional performance-based baselines shall be established at the highest applicable level of aggregation in the relevant sector of the host Party.
- **Definition of baseline and elements to be taken into account:**
 - Baseline reasonably represents the emissions that would have occurred in the absence of the proposed project activity, including elements that needs to be taken into account, whenever applicable:
 - Established in a transparent and conservative manner
 - Relevant circumstances including national, regional or local social, economic, environmental and technological circumstances
 - Relevant national and sectoral policies that **impact the emissions within the project boundary** including but not limited to:
 - Existing laws and regulation
 - NDC
 - LT Strategy
- **List of specific baseline approaches** (always taking into account the principles under 2 and process for establishment under 1)
 - Best available technologies (*do we need to start defining “economically feasible”?*)
 - Performance-based approach, where a baseline is based on the emissions of activities providing similar outputs (*note difference between the level of guidance provided in para 38b (more general) and 41a (more specific)*)
 - The benchmark set at an ambitious level (to be defined by the SB)
 - Possibility to put forward an alternative approach approved by the host Party (see 41b)
 - If none of the above is viable
 - Projected emissions (add similar supporting details as in the list above: e.g. projected emissions based on emissions in the past 3 year in a similar sector etc.)
 - Historical emissions (as above)
- **Additionality assessment**
 - Methodologies should specify approaches to additionality
 - If the ER do not occur in the absence of the project
 - Cannot be additional if there is law or regulation requiring the activity or the outcome
 - Additionality ca almost in all cases be contested, it need to be reviewed and re-evaluated at intervals
 - Potential approaches and considerations to additionality

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- Emission reduction when compared to the baseline
- Positive lists
- Cost and barriers
- Market penetration.