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### Transition from CDM to 6.4 Mechanism

GENERAL COORDINATION OF CLIMATE CHANGE MITIGATION

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MEXICO

# **Transition from the CDM to the 6.4 Mechanism**



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1. Transition of Activities

2. Transition of Units

3. Transition of Baselines - Methodologies

# **Transition from CDM to 6.4 Mechanism**



## THOUGHTS ON THE TRANSITION

- implementation of the Paris Agreement Necessary to learn from the Kyoto experience, while moving towards a full
- purposes Working simultaneously on both instruments may add barriers to Paris Agreement
- issuance of CERs It is necessary to establish what will happen with the ongoing projects and upcoming
- Carrying over CERs to 6.4 Mechanism may undermine Paris ambition

# Transition from the CDM to the 6.4 Mechanism



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# **1. Transition of Activities**

## 1. Transition of Activities



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### Full transition of activities

#### Advantages:

- Would allow on-going projects and PoAs at risk of ceasing operations (vulnerable activities) to keep mitigating GHG emissions
- capacity in governments and private sector Could serve to slow down the current process of diminished
- Can create a pipeline of Article 6.4 mechanism activities
- market mechanisms Can incentivize the private sector to continue engaging with UNFCCC

#### **Disadvantages**:

- Can undermine post-2020 ambition
- mitigation activities Can hamper the development of new and additional domestic

#### **Advantages**

No transition of activities

- Would encourage the Parties to develop new, additional domestic mitigation activities
- Would provide an important environmental integrity safeguard

#### Disadvantages

- activities May disincentivize the private sector in participating in existing CDM
- private sector capacity built during the KP period Could lead to a loss of confidence in UNFCCC market mechanisms, or CDM
- pipeline Could slow down the creation of the Article 6.4 mechanism activities

### A THIRD OPTION →

## 1. Transition of Activities



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# Partial transition of activities

- PoAs only
- Activities registered in the KP second commitment period only
- CDM activities from certain sectors only
- CDM activities from certain technology types only
- Vulnerable and/or highly vulnerable activities

### Example of vulnerable activities:

- Energy efficiency projects are usually at low risk of discontinuation once implemented, contrary to efficient cook stoves which may face risk of discontinuation
- Projects that involve multiple parties are more likely to be vulnerable to discontinuation, regardless of the general economic attractiveness of the activity, such as the commercial livestock manure management in Mexico



The transition date relates to when the reductions were made, not to when they are issued. This could be a single date for all migrating activities or could be set independently for individual activities

<ul> <li>Other requirements such as where issuance takes place Article Article 4 article 4</li> <li>For CDM activities that have transitioned, A6.4ERs may be ssued for emission reductions achieved on or after 1 January</li> </ul>	The Supervisory Body shall ensure that the [small-scale] activities undergo an expedited registration process [X criteria and X requirements regarding expedited registration]	➤ The transition (including the necessary actions by the Supervisory Body) shall have been completed by no later than ➤ The ( X date];	Where an activity is eligible for transition: Nhere an activity is eligible for transition: host Par	Option A Transitio	<b>What has been discu</b> : Version 3 of the rules of modalities and <sub>1</sub>	1. Transition of Activitient
tivities registered under [joint implementation under [] [or] [the clean development mechanism under Article of the Kyoto Protocol may be registered as Article 6, paragraph 4, activities.	Option B	compliance with these rules, modalities and procedures by the Supervisory Body;	provision of approval to the Supervisory Body by the Y	n subject to:	<b>ssed so far?</b> procedures for the mechanism	ES INTECC

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# 2. Transition of Units

### 2. Transition of Units



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## A carry-over of available CERs could:

- Increase flexibility for meeting NDC targets
- mechanism Increase liquidity for the start of Art 6.4

#### However

- mechanism environmental integrity of the Article 6.4 NDC mitigation targets could undermine the The use of pre-2020 issued CERs to fulfil post2020
- the Article 6.4 mechanism (OECD/IEA, 2019) those that would have occurred in the absence of This could prevent any emission reductions beyond

### Surplus of CERs

- CDM could potentially continue to generate CERs for several years
- The supply of transitioning CERs is potentially large relative to demand

sector investment in new Article 6.4 mechanism activities This implies low credit prices, thus less incentives for private

# Amount of CERs issued, available at December 2017

Party	Volume of issued CERs (M CERs)	Percentage out of the total volume issued	Available CERs (M CERs)	Estimated volume of potential CEP supply to 20
		(%)		supply t (M CEF
hina	1,071	54.1%	434(")	
azil	133	6.7%	54(*)	
exico	30	1.5%	12(*)	
			Lo, L., 8	Vaidyula,

### 2. Transition of Units





## Some Options are:

- Restriction of CERs from certain project types depending on how vulnerable they are to ceasing their mitigation activities in the absence of a market for CERs
- Restriction of CERs from certain vintages

### 2. Transition of Units



## Version 3 of the rules of modalities and procedures for the mechanism What has been discussed so far?

#### **Option A**

**Option B** 

CERs issued for the CDM for emission reductions that were achieved [prior to][on or after] 1 January [2020][2021] may be used by a Party

towards its NDC

CERs issued for the CDM shall not be used by a Party towards its NDC

#### **Option C**

Kyoto Protocol units, or emission reductions underlying such units, **shall not be used by a Party towards its NDC** [or for other purposes]



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## 3. Transition of Baselines -Methodologies

# 3. Transition of Baselines - Methodologies



- Make the most of CDM since it has an extensive body of internationally approved and readily available baseline and monitoring methodologies
- additionality and establish new baseline scenarios Consistency with Article 6.4 rules and NDCs may require migrating activities to re-demonstrate
- also include policy instruments and sectoral mitigation measures KP methodologies were developed for projects and PoAs, while the Article 6.4 mechanism could
- available technology in different regions and/or national contexts, and to set up additionality or baseline criteria in a fair and practical manner Technological progress: there is a need to recognize the different criteria needed to assess best-

# 3. Transition of Baselines - Methodologies



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# What has been discussed so far?

Version 3 of the rules of modalities and procedures for the mechanism

### **Option A and Option B**

regional or local circumstances, and providing justification for the choice" for calculating emission reductions, taking into account relevant national, following approaches to setting a baseline [that is below 'business as usual',] "Each mechanism methodology shall require the application of one of the



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2 ". Each mechanism methodology shall require the application of one of the following approaches.

Option A         1) A performance-based approach, taking into account:         • The emissions of activities providing similar outputs and/or services in similar social, economic, environmental and technological circumstances;         • [Technologies that represent an economically feasible [and environmentally sound] course of action;]         Simililar to Option B (2) →         • Barriers to investment;	<ul> <li>Option B + "[while ensuring environmental int Option B + "[while ensuring environmental int</li> <li>1) Performance-based approach, where a baseline is based on:</li> <li>1) Performance-based approach, where a baseline is based on:</li> <li>2) An approach [based on][taking into account] best available techn represent an economically feasible and/or environmentally sound c action;</li> <li>3) [The benchmark baseline approach, where a baseline is based on benchmark representing a level of GHG emissions for activities with scope and boundary;]</li> </ul>
<ul> <li>Barriers to investment;</li></ul>	3) [The benchmark baseline approach, where a baseline is ba benchmark representing a level of GHG emissions for activiti scope and boundary;]
	(d) [Where the approach referred to in paragraphs 41(a)–(c) [considered to be] [[economically and] technologically viabl appropriate], an approach based on: Based on what
2) [An approach based on 'Business as usual' emissions;]	4)[Projected emissions; or]
3) An approach based on historical emissions	5) Historical emissions.]



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