

CDM Transition to Article 6 of the Paris Agreement

Options Report

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Sandra Greiner
Andrew Howard
Thiago Chagas
Tobias Hunzai



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How to use the report format

Read the report page-by-page

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About the CDM Transition Initiative

The existing pipeline of CDM activities can be considered both a **liability** and an **opportunity** for the Paris Agreement. A liability because finding a perspective for UN approved CDM activities with crediting periods beyond the Kyoto Protocol is central to ensuring the credibility of the new central mechanism created under Article 6.4. It is however also an opportunity, because the existing pipeline of CDM activities may be ideally placed for scaling up mitigation action quickly and effectively under the Article 6.4 mechanism, and potentially also under the new, international cooperative approaches referred to in Article 6.2.

The Transition Initiative by **Climate Focus** and **Koru Climate** is analysing options for how to take elements of the CDM forwards and provide a platform for interested governments and stakeholders to discuss and refine them.



We would like to thank

The discussion provided in this report has been informed by a **review group**, consisting of individuals from countries and stakeholder groups interested in the issue of CDM transition.

Initial findings from the draft report were also presented and discussed on 22 February 2017 during the ICTSD Informal meeting on Article 6 in Ottawa, Canada.

We would like to extend our gratitude to everyone offering comments and support.

The preparation of this Report has been supported by the German *Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety* and the Norwegian *Ministry of Climate and Environment*.



CDM Transition

to Article 6 of the Paris Agreement

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Chapter II	Understanding the current CDM pipeline
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Conclusions

Transition should not be an afterthought.

- Aspects of the CDM can fit with many different shapes for the future of mechanisms under Article 6 and domestic carbon pricing policies. Considering the contribution of the CDM – what can be brought across and how – can be integrated into the design process for mechanisms under Article 6.4 and also Article 6.2.
- Transition need not preserve the CDM as it stands. It is more about gaining the best from the CDM to help build effective future carbon market instruments that can be well integrated with national climate policy and international cooperation.
- Different aspects of the CDM can be considered. They are related but may be treated separately:
 - **CDM activities** (projects and PoAs);
 - **Credits** for reductions made prior to 2020;
 - **Rules and institutions** set up for the CDM.
- A **political balance** would need to be found between preserving the momentum and commitment to mitigation created by the CDM and ensuring that the mitigation ambition of NDCs is not watered down. Any migration of CDM activities or credits would need careful management if ambition is to be maintained.
- Measures are available which could help **manage the overall impact** on mitigation ambition
 - Filter CDM activities for those that contribute most to the policy directions of new mechanisms;
 - If necessary, apply adjustments to further limit level of issuance that can occur;
 - Focus any recognition of pre-2020 reductions on strengthening the incentive for mitigation activities;
 - More recently initiated CDM activities may embody characteristics that countries may find useful in the Article 6 context – programmatic approaches, standardization, additionality demonstrations and financial arrangements that correspond to expected low demand and price scenarios, etc.





Conclusions (continued)

- Some filters may merit further consideration, as these may ensure continuity of activities and rapid scaling up of mechanisms under Article 6 while limiting concerns over the dilution of post-2020 ambition, such as
 - Migrate only **PoAs**;
 - Migrate activities from **LDCs, SIDS and/or Africa**;
 - Migrate activities registered in the CDM **after Article 6 decisions were taken** (after 2015 or 2018).
- A **migration procedure** for CDM activities would need to be kept as simple as possible
 - An application from the activity owner followed by technical and eligibility checks;
 - Conformity checks on whether the activity is consistent with Article 6.4 rules and NDCs. These could be applied immediately or delayed (i.e. at the end of a transition period). Consistency with Article 6.4 rules and NDCs may require migrating activities to re-demonstrate additionality and establish new baseline scenarios.
- The earlier that **certainty** can be given to activity owners, the more it may stem the exodus of activities and capacity from governments and the private sector. Certainty could be provided even before the final rules for mechanisms are decided – through in-principle decisions or providing for guarantee periods.
- The **rules and institutions** developed for the CDM are a rich resource of experience and lessons to draw upon, and can help manage a smooth transition of CDM activities into the context of the Paris Agreement. This would be compatible with making adjustments away from CDM approaches where this is warranted.
- Parties also need to consider **what is to happen with the CDM**. Functions related to the second commitment period may need to run until the end of a Kyoto true-up period in 2023 but Parties could decide to halt registrations from 2020 and concentrate the “energy” of UNFCCC crediting under Article 6.





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Chapter I

Aspects of transition

Content

Introduction

Topics covered in this report

The case for and against transition

Possible shapes of new mechanisms under Art 6

Evolution of domestic carbon pricing





Chapter I

Aspects of transition - Introduction

Background

- CDM transition has gained momentum in negotiations (e.g. in submissions and discussions on Article 6 and CMP guidance to the CDM Executive Board during the Marrakech conference)
- Different views on why and how it should be addressed
- Topic is cross-cutting the PA and KP negotiations
- Mix of technical questions and political interests

Purpose of the report

To help structure discussion on CDM transition

To present a full overview of issues and how they relate

To help Parties reach a political resolution of the issues

Report is prepared in a PowerPoint format to allow easy navigation of issues and to highlight key messages





Chapter I

Aspects of transition - Topics covered in this report

Subject of transition (the “what”)

<i>CDM activities</i>	(Projects and PoAs)
<i>CDM credits</i>	(CERs)
<i>CDM rules</i>	(M&P, Project and PoA Standard, VVS, PCP, methodologies, tools, templates)
<i>CDM institutions</i>	(EB and its panels, DNAs, DOEs, RCCs, CDM registry)

Arguments and challenges (the “why”)

CDM is opportunity and liability for Paris Agreement

Options for transition (the “how”)

Options for transitioning activities and credits
Options for transitioning institutions and rules
Options for the CDM
Case studies for the domestic use of crediting



Chapter I

Aspects of transition - The case for and against transition

Arguments for CDM transition

- Increase incentives to prevent the loss of existing mitigation efforts – in particular where they are vulnerable to cessation and are consistent with desired future directions – and trigger investment in new efforts
- Rapidly scale up the mitigation achieved through the Article 6 mechanisms, by leveraging the pipeline of CDM activities and its potential for replication
- Not lose momentum in the growing implementation of domestic carbon pricing measures making use of using UNFCCC-governed international crediting
- Enable Article 6 mechanisms to quickly serve new compliance demand (NDCs, enhanced NDC ambition, ICAO CORSIA)
- Preserve investor confidence in UNFCCC mechanisms and policy makers
- Help ensure an orderly transition between the Kyoto Protocol and the Paris Agreement



Chapter I

Aspects of transition - The case for and against transition

Concerns with CDM transition

- May undermine the ambition of NDCs if CDM activities transition that no longer require a CER revenue stream or are not additional in the context of a host country's NDC
- A wish to preserve value from the CDM should not limit the development of Article 6 mechanisms and may hinder sought-after reforms
- Any provisional use of the CDM while new mechanisms are being operationalized may pre-empt the rules of the Article 6 mechanisms
- False expectations should not be created among investors concerning their activities
- Unclear how accounting of CERs towards NDCs would work as of 2020
- Existing regional imbalances in CDM activities should not be perpetuated



Chapter I

Aspects of transition – Compatibility of the CDM with the new crediting architecture

How does the CDM fit with the new mechanisms of Article 6?

Article 6.2 or 6.4?

- Would CDM transition only be realized through Article 6.4 or could the same apply also for Article 6.2?

See
slides 27



Project/Programme-based versus new types of cooperation

- Some Parties emphasize “broader approaches” in the negotiations of the Article 6.4 mechanism, including voluntary cooperation based on sectoral policies and measures. How could the CDM fit with possible new shapes of mechanisms under Article 6?

See
slides 14



Emergence of carbon pricing in developing countries

- Many developing countries are progressing to carbon taxes, emission trading schemes and other policies, raising the question of what this means for the role of the CDM.

See
slide 15



Chapter I

Aspects of transition - Possible shapes of new mechanisms

Cooperative approaches by countries in the context of Article 6.2

- Entity-level crediting systems focused at the project, programmatic or sector levels and possibly limited to specific activity and technology types
- Internationally linked entity-level trading systems, possibly allowing credits from outside the covered sectors to be used as offsets against compliance obligations
- Direct government-to-government transfers, most likely focused on specific government-level cooperation programmes and of a more “one-off” nature

UNFCCC-governed crediting under Article 6.4

- A fully centralized crediting system governed directly by a UNFCCC body, most likely with a broad range of activity/technology types at project, programmatic and sector levels
- A less centralized crediting system allowing for implementation and governance at a national level that uses elements of guidance and infrastructure developed at the UNFCCC level and operates under the overall oversight of a UNFCCC body
- A hybrid of the two approaches, allowing for national implementation and governance but also providing a fully centralized infrastructure for countries wishing to use it

What role for the CDM?

CDM activities and credits could be integrated with all such mechanisms. Elements of the CDM rules and institutions could be reused in Article 6 mechanisms or could inform and fast-track their development.

These mechanisms may see a greater blending of results-based climate finance (not generating credits for offsetting purposes) and market or private sector finance (leading to offsetting) and the CDM can contribute to this.

The consideration of the CDM transition can proceed in parallel and help inform the design of these mechanisms.



Chapter I

Aspects of transition – Evolution of domestic carbon pricing

Evolution of domestic carbon pricing and the CDM

There is a growing trend in countries integrating international crediting mechanisms into their domestic carbon pricing policy frameworks. This has to date been undertaken using the CDM:

- No “one-size-fits-all”. Countries have pioneered different approaches (see models below);
- Takes advantage of a strong CDM pipeline and multilaterally-recognized crediting standard;
- Uses the strong impetus and awareness of the CDM among domestic policy makers and stakeholders.

Continuity and a smooth transition of selected CDM activities, credits and rules can facilitate and extend these domestic policy implementation efforts. Countries have typically built upon the CDM and gone beyond its standard model of operation. An evolution of international crediting that builds on the CDM can support this.

Model

Integration of international crediting activities, standards or infrastructure into domestic trading and carbon taxes

Evolution of the CDM to sectoral crediting approaches

Use of the international crediting to evolve the domestic and international policy framework

Examples

China, South Korea, South Africa

PMR proposals of Morocco and Tunisia

Nitric Acid Climate Action Group (NACAG), Transformative Carbon Asset Facility (TCAF), credited NAMAs

[Click here](#) for case studies on domestic use of CDM





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Chapter II

Understanding the current CDM Pipeline

Content

CP2 issuance

PoAs

Operations

Financial status

Registered activities

Incentives

Global distribution

Supply/demand

LDCs



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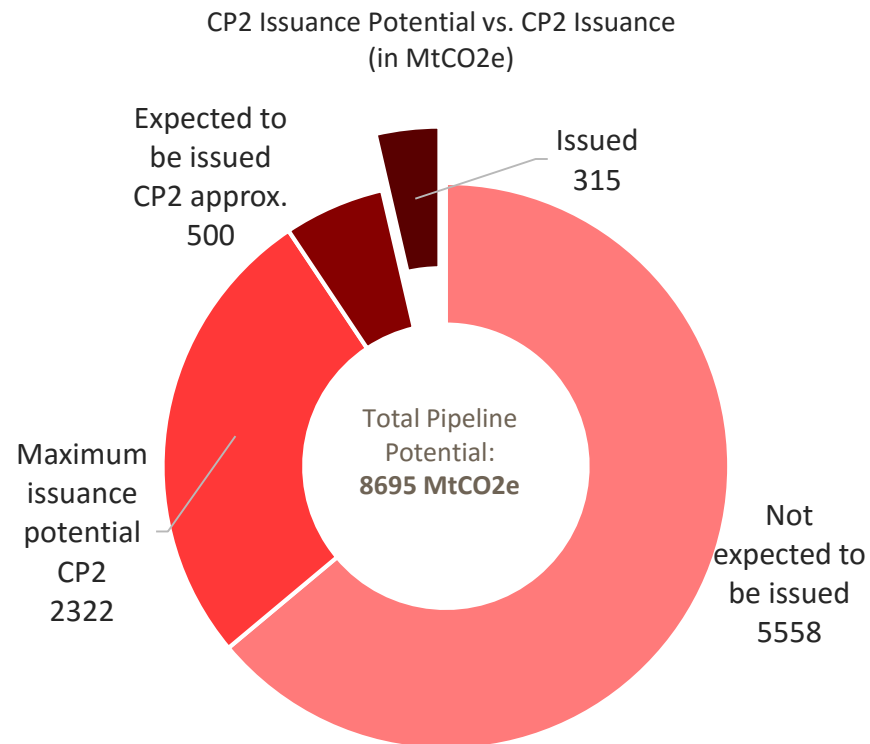
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Chapter II

Understanding the current CDM pipeline – CP2 issuance

Issuance

- CP2 has seen the **issuance of 315 MtCO₂e** (3% of Pipeline as of 1. Jan 2017)
- Realistic additional issuance potential between 2016 and 2020 can be expected to lie between **300–600 MtCO₂e** (3% - 5% of pipeline)
- Around **7,900 MtCO₂e** (90%) of the CP2 pipeline potential is not expected to be issued
- Approx. **2,322 MtCO₂e** could potentially be issued in case of a CER price recovery (based on activities still fully operational, issuance success rate and average intermission between issuances)²
- How much of this would be issued in practice depends on many variables and would require further quantitative analysis



Chapter II

Understanding the current CDM pipeline - Operations

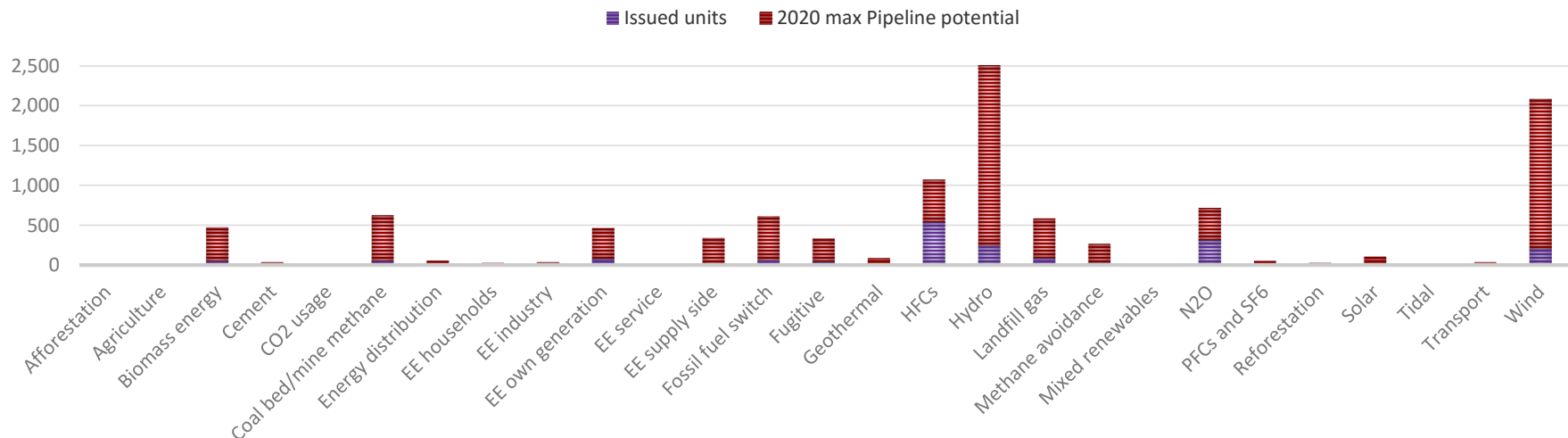
Operational Status of CDM projects

The fact that no CERs are issued, does not mean that a project is no longer operational. Project developers could be waiting for prices to recover before requesting issuance. As long as monitoring continues, CER issuance could still be requested.

An extensive study in 2015 interacted with more than a thousand projects and found that

- Between 64% to 79% of all registered CDM activities are still fully operational.¹
- CDM monitoring operations are continued in 39% to 67% of all registered activities.¹
- Only roughly a third of all project owners are prepared to incur additional costs, (e.g. for requesting issuance) on the basis of current financing arrangements and secondary market prices).¹

ISSUANCE POTENTIAL PER SECTOR AGAINST UNITS ISSUED (MTCO₂E)²



¹ Warnecke et.al., Analyzing the status quo of CDM projects; Status and prospects, May 2015.

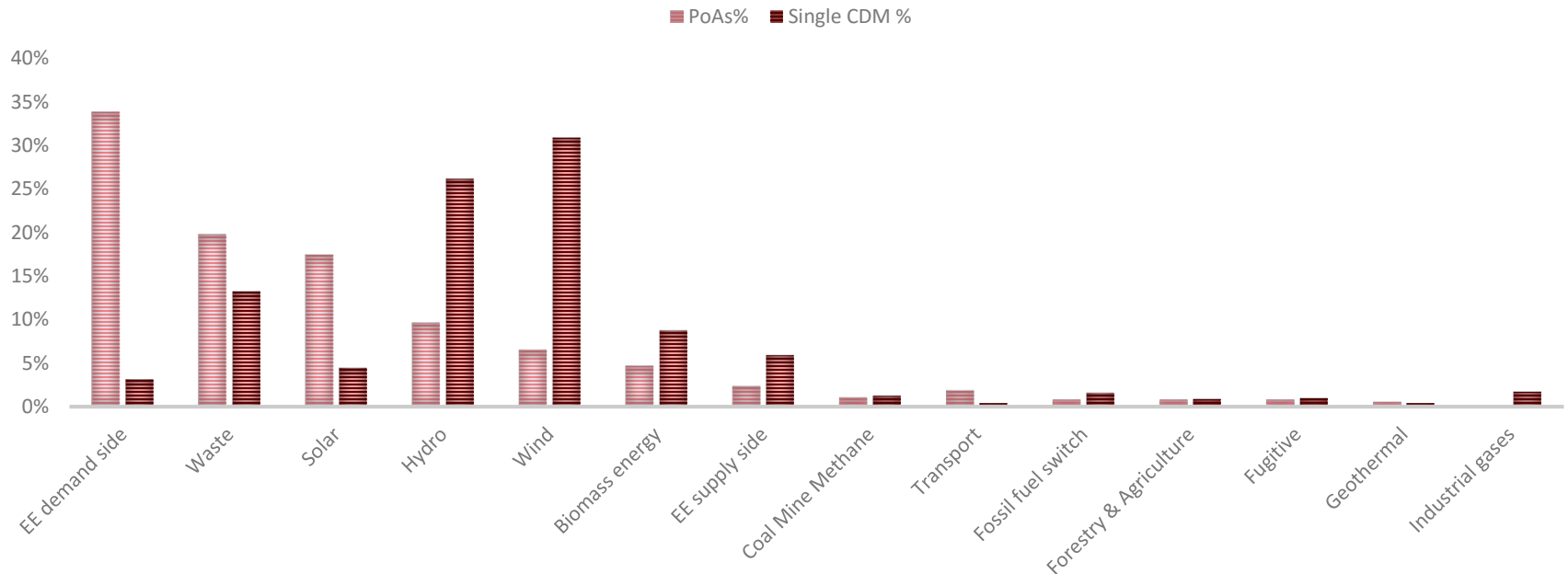
² Note: the realistic issuance expectation is below the pipeline potential. UNEP DTU, CDM/JI Pipeline Analysis and Database, January 20th 2017

Chapter II

Understanding the current CDM pipeline – Registered activities

- Currently **7752 projects** registered with the CDM with an additional 706 at validation stage.
- There are a total of **301 registered PoAs** with **2169 CPAs** in 76 countries.¹

PERCENTAGES OF CDM PROJECTS AND POAS BY SECTOR

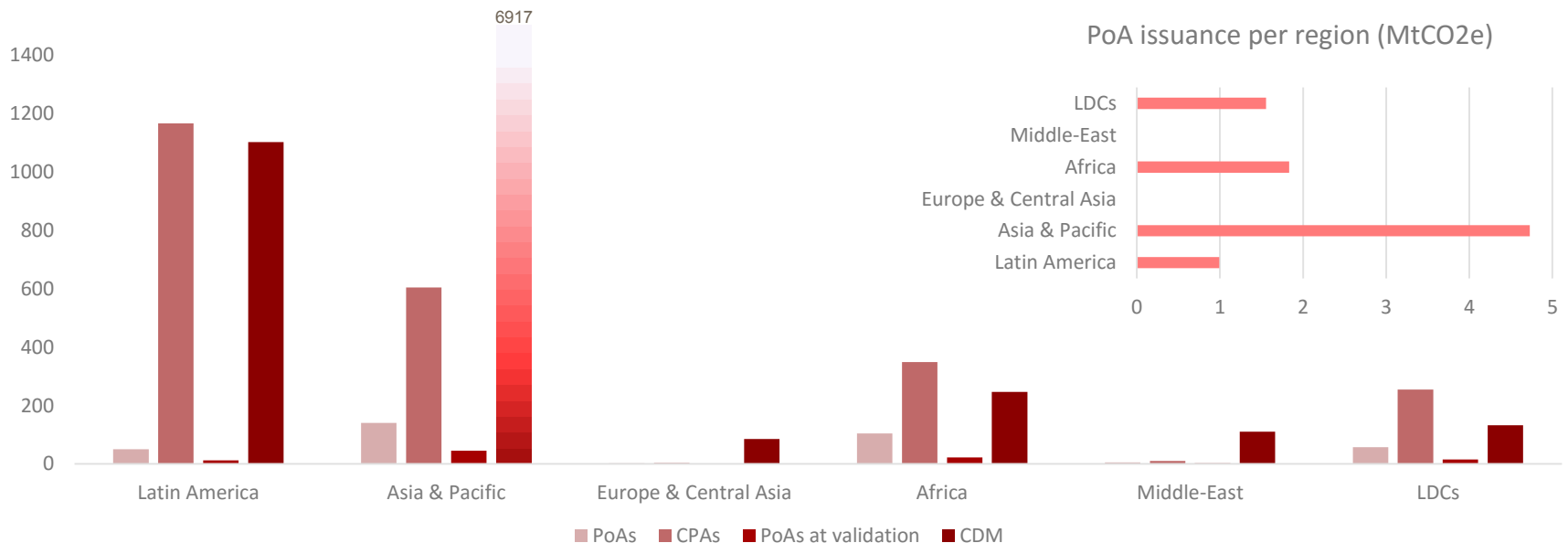


Chapter II

Understanding the current CDM pipeline – Global distribution ¹

- 82% of all single CDM projects and close to 50% of all PoAs are located in the **Asia and Pacific** region.
- The share of Least Developed Countries (**LDCs**) is significantly larger for PoAs (19%) than for single CDM projects (1.6%)

Comparison of regional distribution of single CDM and PoA (total numbers)





Chapter II

Understanding the current CDM pipeline – LDCs

CDM in Least Developed Countries¹

- There are 130 CDM projects in LDCs of which 102 are registered
- Combined issuance potential under CP2 of 7.1MtCO₂e
- Current issuance success rate is 23%

PoAs in Least Developed Countries¹

- There are 73 PoAs in **30 different LDCs** of which 57 are registered with 254 CPAs
- Combined issuance potential under CP2 is 77.6 MtCO₂e of which **1.5 MtCO₂e have been issued** from 14 activities



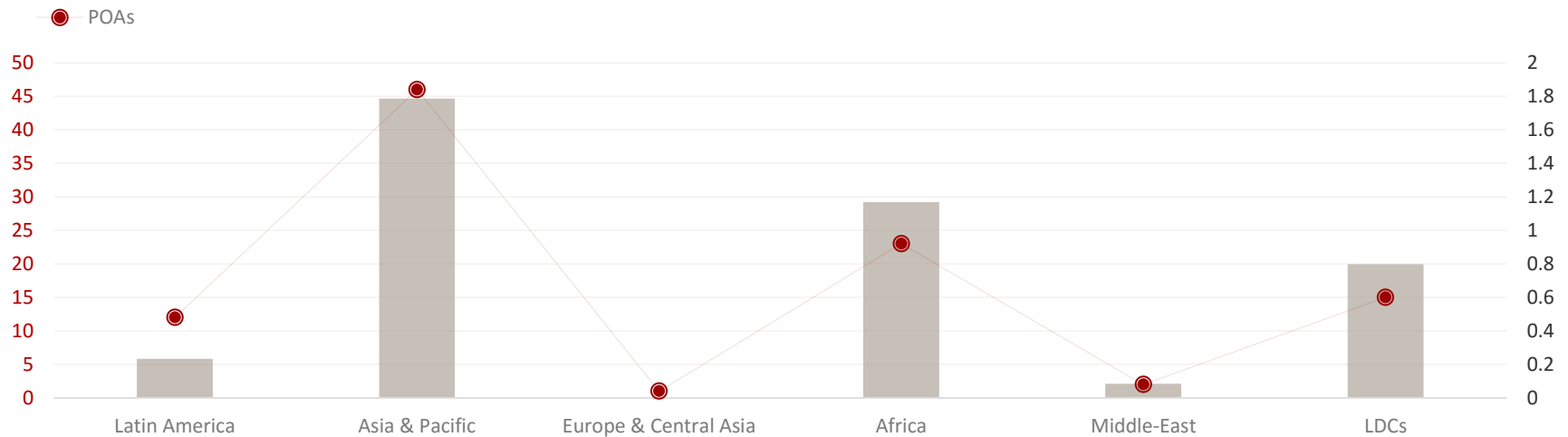
Chapter II

Understanding the current CDM pipeline – PoAs¹

There are **303 registered PoAs**; of which 17 were registered under CP1

Of the **21 PoAs registered in the last two years**, 10 are located in Africa, 6 in Asia Pacific and 4 in Latin America, 1 in the Middle East
80 PoAs are currently under validation

PoAs under validation per region and issuance potential (MtCO₂e)
to be registered in 2017 or later



Chapter II

Understanding the current CDM pipeline – Financial status

Financial status of CDM activities

- The average price of secondary CERs in 2016 was US\$0.4/tCO₂e with a continued supply-demand imbalance that prevents a price recovery.²
- Feedback from project developers shows, that CER revenues are insufficient for more than 97% of operations under current market price conditions.¹
- Approximately half of all projects shy away from any further costs into the certification and indicated to continue operations outside of the CDM and/or seek support from other mechanisms.¹



Chapter II

Understanding the current CDM pipeline – Incentives

Current and potential future incentives for continuation of activities

Offsets from Aviation: ICAO's new Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) will establish a new source of demand for emission units. While the aviation trade association, IATA, estimates CORSIA to create an offset demand of more than 3 billion tCO₂e between 2021 and 2035, near term expectations are smaller.¹ The scheme expects an approximate total of 124 million tCO₂e of offsets during the pilot phase 2021-2023. Admission will be subject to ICAO eligibility criteria (yet to be defined).²

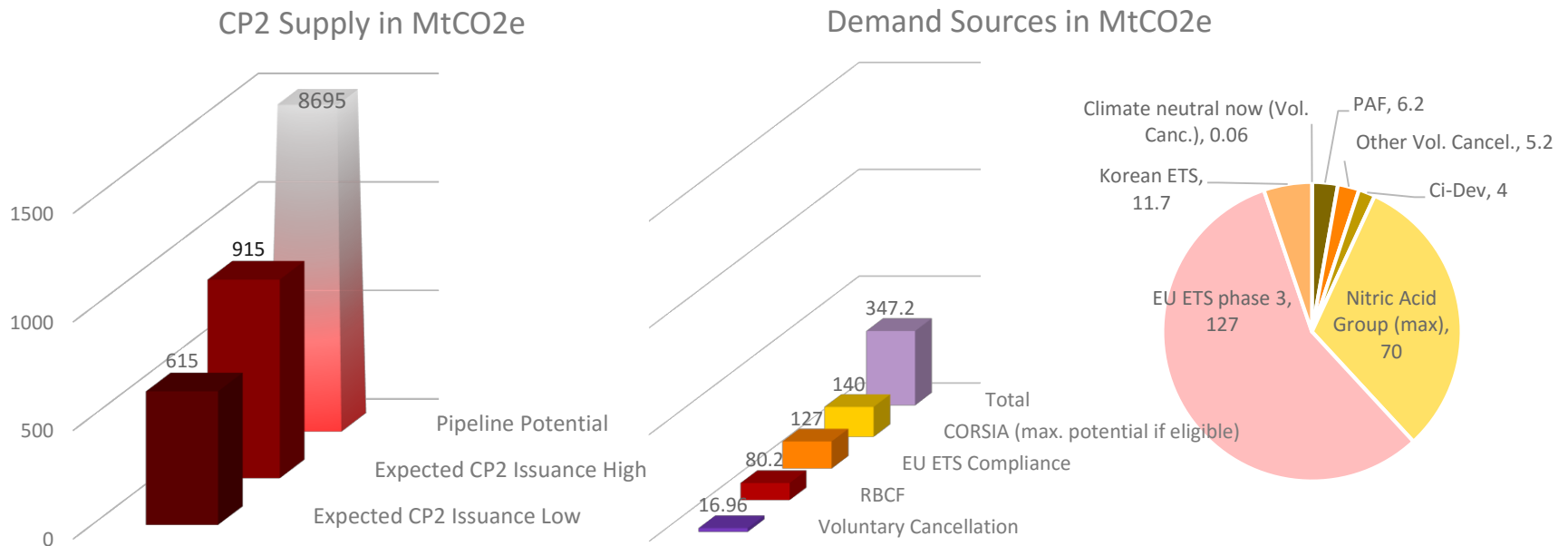
Results Based Climate Finance (RBCF): The around 30 million CERs . Initiatives include the German Nitric Acid Climate Ac UNFCCC Secretariat expects the annual demand from RBCF initiatives to amount to tion Group (NACAG), the World Bank's Carbon Initiative for Development (Ci-Dev), the Carbon Partnership Facility (CPF) and the Pilot Auction Facility (PAF). The CDM Executive Board is looking into options to broaden the use of the CDM as a tool for further uses.

Voluntary Cancellation: A total of 17.5 million CERs have been voluntarily canceled since cancellation has been enabled. The larger part of voluntarily canceled CERs were converted into Korean Carbon Units. Another domestic source for voluntary cancellation will likely be the South African Carbon Tax Bill.



Chapter II

Understanding the current CDM pipeline – Supply/demand^{1,2}

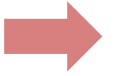


1 UNEP DTU, CDM/JI Pipeline Analysis and Database, January 20th 2017.
 2 World Bank, Ecofys and Vivid Economics. 2016. State and Trends of Carbon Pricing 2016 (October) - Expected to be issued 2016-2020 assumption 300 – 600MTCER.





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Chapter III

Transitioning activities

Content

What do we mean?

Assessment criteria

Options for migrating activities



Chapter III

Transitioning activities

What do we mean?

The transition of CDM projects and PoAs involves their **migration** to the UNFCCC-governed Article 6.4 mechanism or other crediting systems established by countries under Article 6.2. This allows the activities to continue mitigating emissions and issue credits under the Paris Agreement. Credits generated after the effective date of their migration may be used by countries towards the achievement of their NDCs.

CDM participants will always be able to apply for the registration of their activities under another crediting system, where they comply with the relevant rules of the new system.

The potential for migrating CDM activities addressed in this report concerns a more **proactive policy formulation** that determines which categories of CDM activities should be allowed to migrate and how their migration can be promoted and streamlined.

Such migration could be implemented as a procedure to transfer activities to the new crediting system, with or without changes, or as a form of simplified or fast-track registration process. Either way:

- It would be expected that the activity needs to align with the requirements of the new crediting system;
- Although the CDM Executive Board would not need to approve the migration, it should be informed that the activity has stopped under the CDM to ensure that it no longer issues CERs under the CDM;
- An approval would be needed from the host country.

Note that, for simplicity, this report refers mostly to the migration of CDM activities to the Article 6.4 mechanism, although the issues and options generally apply to crediting systems under Article 6.2 as well.

Note also that the issues and options may also apply to credits under other standards, such as voluntary standards.



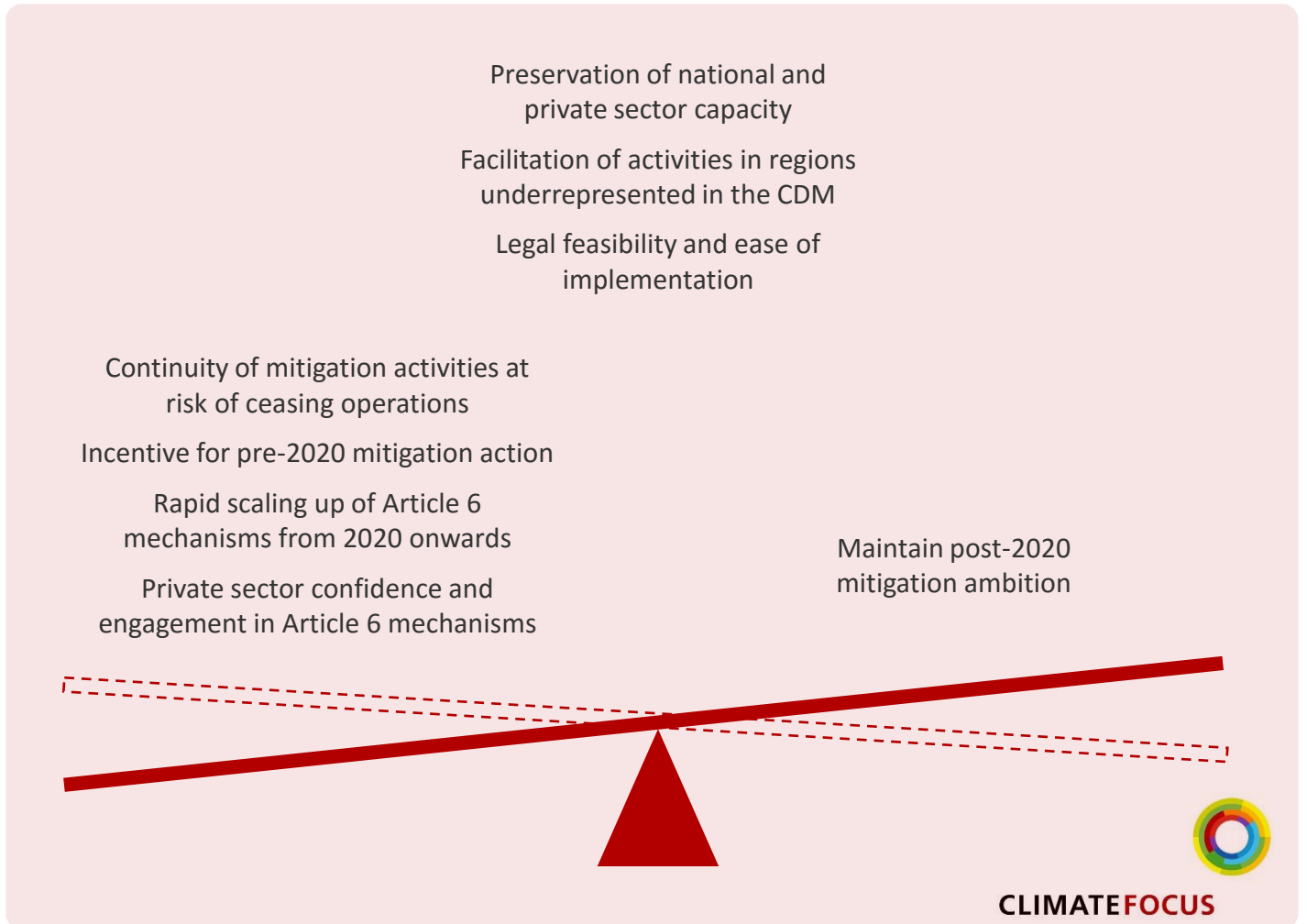
Chapter III

Transitioning activities

Assessment criteria

These criteria have been identified as the basis for assessing the migration options in this chapter. They reflect what countries may seek to achieve by transitioning CDM activities to Article 6 and concerns that may need to be managed.

Different stakeholders will weight these criteria differently. A balance needs to be found among them.





Chapter III

Transitioning activities

Which **CDM activities** to migrate?

[Click here](#) 

From what **date** should the migration be effective?

[Click here](#) 

What **procedure** should be followed for migration?

[Click here](#) 

When should migrating activities come into **alignment with Article 6.4 rules and the context of NDCs**?

[Click here](#) 

Is there a need to give CDM activities **confidence** in a transition before the Article 6.4 rules are agreed?

[Click here](#) 





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Chapter III

Transitioning activities

Which CDM activities to migrate?

The choice among these options has the greatest impact in relation to all the criteria, including the extent of the continuity of mitigation efforts, the nature of mitigation incentives and the potential for diluting instead of raising post-2020 ambition.

It should not be a foregone conclusion that transition must allow all CDM activities to migrate. A number of means are available to limit the migration, perhaps to promote specific types of mitigation activity, to exclude certain activity types that no longer need support via crediting, or to reduce the negative impact on ambition.

Option 1

All CDM projects/PoAs have option to migrate

Option 2

Partial integration limited by filters, with the choice designed to achieved the desired impact, for example:

- Migrate only PoAs
- Migrate only specific activity or technology types
- Migrate only activities in specific regions
- Migrate only activities with specific vintages (years) of registration or reduction

Option 3

Partial integration limited by adjustments, to allow all activities to migrate but with adjustments that limit how they operate and how many credits they can issue, for example:

- Shorter crediting period length
- Limit crediting to the first NDC cycle
- Discounting of issuance



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Chapter III Transitioning activities

Options (combinations of the options on the previous slide)	Continuity of mitigation activities	Incentive for pre-2020 mitigation action	Rapid scaling up of Article 6 mechanism	Maintain post-2020 mitigation	Private sector confidence and engagement	Preservation of national and private sector capacity	Facilitation of activities in regions underrepresented in the CDM	Legal feasibility and ease of implementation
1. All registered projects/PoAs	++	0	++	--	++	++	--	++
2. All registered PoAs	+	+	+	-	++	++	+	++
3. Projects/PoAs registered in the second commitment period	-	+	+	-	+	++	0	++
4. PoAs registered in the second commitment period	-	+	+	-	+	++	0	++
5. Projects/PoAs registered from 2018 onwards	-	++	0	0	-	+	-	++
6. PoAs registered from 2018 onwards	-	++	0	0	-	+	-	++
7. Projects/PoAs filtered to include only LDCs/SIDS/Africa	+	+	0 or +	-	+	+	++	++
8. Projects/PoAs filtered to only certain activity/technology types	+	+	+	-	++	+	- to +	++
9. Projects/PoAs with adjustments	+	+	+	0	++	+	-	-





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Chapter III

Transitioning activities

How the options measure up

Full integration of **all CDM projects/PoAs** would be good for the continuity of mitigation efforts and scaling up the Article 6 mechanism, and for private sector confidence. But it would have major negative impacts on post-2020 ambition, as allowing all activities to migrate would allow many credits to be generated in the post-2020 period without requiring greater emission reductions. This would displace actual post-2020 mitigation.

Migrating **only PoAs** would soften the impact of a full integration of CDM activities. It would result in less continuity and scaling up, but also reduce concerns over the dilution of post-2020 ambition. By keeping large volumes of credits from CDM activities out of Article 6, this more targeted and lower-scale approach may give greater incentive for new pre-2020 action to develop. It may also be perceived as a credible policy option, hence keeping private sector confidence high even though some activity owners would not benefit from it.

Limiting activities to those **registered in Kyoto Protocol's second commitment period** would soften the impacts even more, given that most CDM activities were registered during the first commitment period. Limiting to those **registered from 2018** (the expected year of adopting rules for Article 6.4) would go even further in this direction. This would cut almost all existing CDM activities, so is close to neutral for post-2020 ambition. It would still however create an incentive for early action through new CDM activities starting up, and this may be stronger due to existing activities being almost fully excluded.

The options for limiting CDM activities through **filters and adjustments** score fairly closely in this initial analysis, except that filtering for LDCs/SIDS/Africa is significantly better for regional distribution and adjustments are likely to have a much lower ease of implementation. Filters and adjustments can however be implemented in many ways and would have different implications. More quantitative assessment would be needed in order to distinguish the impacts of these variants.



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Chapter III

Transitioning activities

From what date should the migration be effective?

The date on which the migration of a CDM activity takes effect will determine which credits may be used towards Kyoto Protocol targets and which may be used towards the achievement of NDCs.

- Emission reductions made **prior to the migration date** may be credited under Kyoto and must not receive credits under Article 6 (unless recognition of early action is allowed, see next chapter);
- Emission reductions **made after the migration date** must be credited only under Article 6 and may be counted towards NDCs;
- Transfers for emission reductions from CDM activities after migration need the same **“corresponding adjustments”** as other transfers.

A clear handover between the CDM and Article 6 is a basis for avoiding the “double issuance” of credits between mechanisms and the “double claiming” of credits between Kyoto and NDC purposes.

Note that there is always a time lag between the reductions being made and subsequently being issued as credits. The migration date relates to when the reductions were made, not to when they are issued.

The migration date could be a single date for all migrating activities or could be set independently for individual activities. Ideally there would be adequate time in advance of the migration date for activity owners to apply for the migration. However, in principle, migration could be made retroactive to a past date, if the activity is able to demonstrate that it met the appropriate requirements from that time.

Option 1

1 Jan 2020 for all migrating activities (start of the Paris Agreement)

Option 2

1 Jan 2021 for all migrating activities (after KP CP2 finishes on 31 Dec 2020)

Option 3

Beginning of a new monitoring period (after 1 Jan 2020) for each activity

Migration date

Credits go to the Kyoto Protocol

Credits go to NDCs under the Paris Agreement



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Chapter III

Transitioning activities

What procedure should be followed for migration?

Activities migrating to Article 6.4 would need alignment with:

- Any significant elements of the **Article 6.4 rules**. These are not yet fully known. Migrating CDM activities may need, for example, to make adjustments to fit baseline rules or to meet requirements for overall mitigation. Some Article 6.4 rules may not require full conformity if the older rules from the CDM are considered equivalent;
- **Policy commitments and business-as-usual (BAU) scenarios** stated in the NDC of the host country. Where a country commits unconditionally to activities through its NDC or considers that they belong to the BAU of the country, these may be considered to be no longer additional after 2020 or should at least be incorporated into the relevant baseline of the crediting activity. In such situations, an activity that was considered additional under Kyoto may no longer be considered additional under the Paris Agreement. CDM activities may need to re-demonstrate additionality and establish new baseline scenarios when they migrate.

Owners would need to apply to have their activities migrated, as a blanket or automatic migration would bring dormant or ineligible activities. The governing body of the relevant Article 6 mechanism would need to decide on the applications on the basis of clear and objective criteria.

Option 1

Technical and eligibility checks, for example to ensure the applicant is the legitimate representative of the activity, that the activity is allowed to migrate, and that the activity still adheres to CDM rules, such as for monitoring

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Option 2

Immediate conformity checks for consistency with Article 6.4 rules and NDCs

OR

Option 3

Delayed conformity checks at the end of a “transition period” for consistency with Article 6.4 rules and NDCs



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Chapter III

Transitioning activities

When should migrating activities come into alignment with Article 6.4 rules and the context of NDCs?

A “transition period” (see previous slide) would give activity owners time to bring activities into alignment with the Article 6.4 rules and NDCs. The conformity checks would be conducted at the end of the transition period instead of directly upon the application to migrate an activity. If transition periods are allowed, decisions on several matters would be needed.

Length of a transition period?

Option 1

Within one year of the migration date

Option 2

At the end of the first monitoring period of the activity after migration, but within two years of the migration date

Consequences of non-conformity?

Option 1

None (credits for reductions during transition period may still be used for NDCs)

Option 2

The activity is deregistered from Article 6.4 and the credits issued for reductions during the transition period are **cancelled** (buyer liability)

Option 3

The activity is deregistered from Article 6.4 and the activity owner is required to acquire and cancel credits as **compensation** for credits issued for reductions during the transition period (seller liability)

Given the market uncertainty associated with buyer liability and the difficulty in enforcing compensation (from deregistered activities), it is advisable to keep any transition periods very short.



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Chapter III

Transitioning activities

Is there a need to give CDM activities confidence in a transition before the Article 6.4 rules are agreed?

Activity owners today still have little clarity on future demand for their credits and this situation will remain at least until the rules, modalities and procedures for the Article 6.4 mechanism are agreed at the end of 2018 (at the earliest). Meanwhile, capacity in the private sector and governments is being lost and activities are ceasing operation.

Early decisions at the CMA may serve to slow the loss of capacity and activities while the rules are being negotiated.

Option 1

The CMA could adopt an in-principle decision for the Article 6.4 rules – that CDM activities will be able to migrate if they match the scope of the new mechanism and can demonstrate alignment with the country’s NDC and the Article 6.4 rules.

Option 2

The CMA could provide for “guarantee periods”, in which CDM activities can operate within the Article 6.4 mechanism and their credits can be used for NDC achievement. Once the Article 6.4 rules are known:

- Activities which are able to come into alignment may remain in Article 6.4;
- Activities which are not able to come into alignment would be deregistered at the end of the guarantee period, without needing to cancel or compensate their Article 6.4 credits.

This would result in some activities supplying credits for use in achieving NDCs, even through they ultimately do not qualify for the Article 6.4 mechanism (this is the nature of the “guarantee”). There would be a need to determine which CDM activities qualify for the guarantee.





MENU



Chapter IV

Transitioning credits

Content

What do we mean?

Accounting matters

Assessment criteria

Options for early action

Options for carry over



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Chapter IV

Transitioning credits

What do we mean?

Transitioning credits refers to the possibility of giving recognition to CERs issued for reductions in the pre-2020 period for use towards the achievement of NDCs in the post-2020 period. In general terms, it can be achieved in two ways.

Allow **recognition of “early action”** (or “pre-2020 action”) for activities which are eligible for migration:

- This can strengthen the incentive for pre-2020 action, since the value of pre-2020 CERs is not lost after 2020;
- It would only be allowed for activities that qualify for migration, so is directly related to the choice of activities;
- Early action is the equivalent of the “prompt start” of the CDM, which allowed activities to issue credits for reductions from 2000 onwards, before the registration process was implemented and before Kyoto’s first commitment period.

Allow **carry-over (“banking”)** of CERs issued for pre-2020 reductions into the post-2020 period:

- This refers to CERs which are stockpiled under the Kyoto Protocol without having been used for Kyoto compliance;
- Such CERs would not necessarily be linked to CDM activities that are eligible for migration to Article 6 – units could be from migrating or non-migrating activities;
- The implementation of carry-over would occur through the accounting rules for Article 6 and NDCs.

Postponing this use of CERs until later can benefit governments (greater flexibility in meeting targets) and entities (credits have more value without a fixed expiry date).



Chapter IV

Transitioning credits

Accounting matters

Giving post-2020 recognition to pre-2020 CERs is not a matter that is specific to the Article 6.4 mechanism. It would need to be implemented through the accounting rules for Article 6 and subject to reporting and review under the transparency framework.

The accounting for credits arriving in the post-2020 period – through either early action or carry-over – would need to be consistent with the wider accounting rules under Article 6 and NDCs, which are currently under development:

- The acquisition of units by a country needs to be added to its emissions budget (or subtracted from its level of inventory emissions). This would need to apply to an acquisition from an earlier time period (just like an acquisition from another country);
- CERs must not have been used towards any international targets or commitments in the pre-2020 period. It is clear that CERs used towards a country's Kyoto targets should not be then carried over. The same principle would need to apply to any other pre-2020 use, such as towards entity-level ETS targets or voluntary offsetting;
- In principle, the CERs to be carried over could currently be owned by anybody and held in any registry (not only in the CDM registry on behalf of developing countries);
- Also, in principle, the pre-2020 reductions issued as CERs could originate inside or outside sectors covered by post-2020 NDCs.





Chapter IV

Transitioning credits

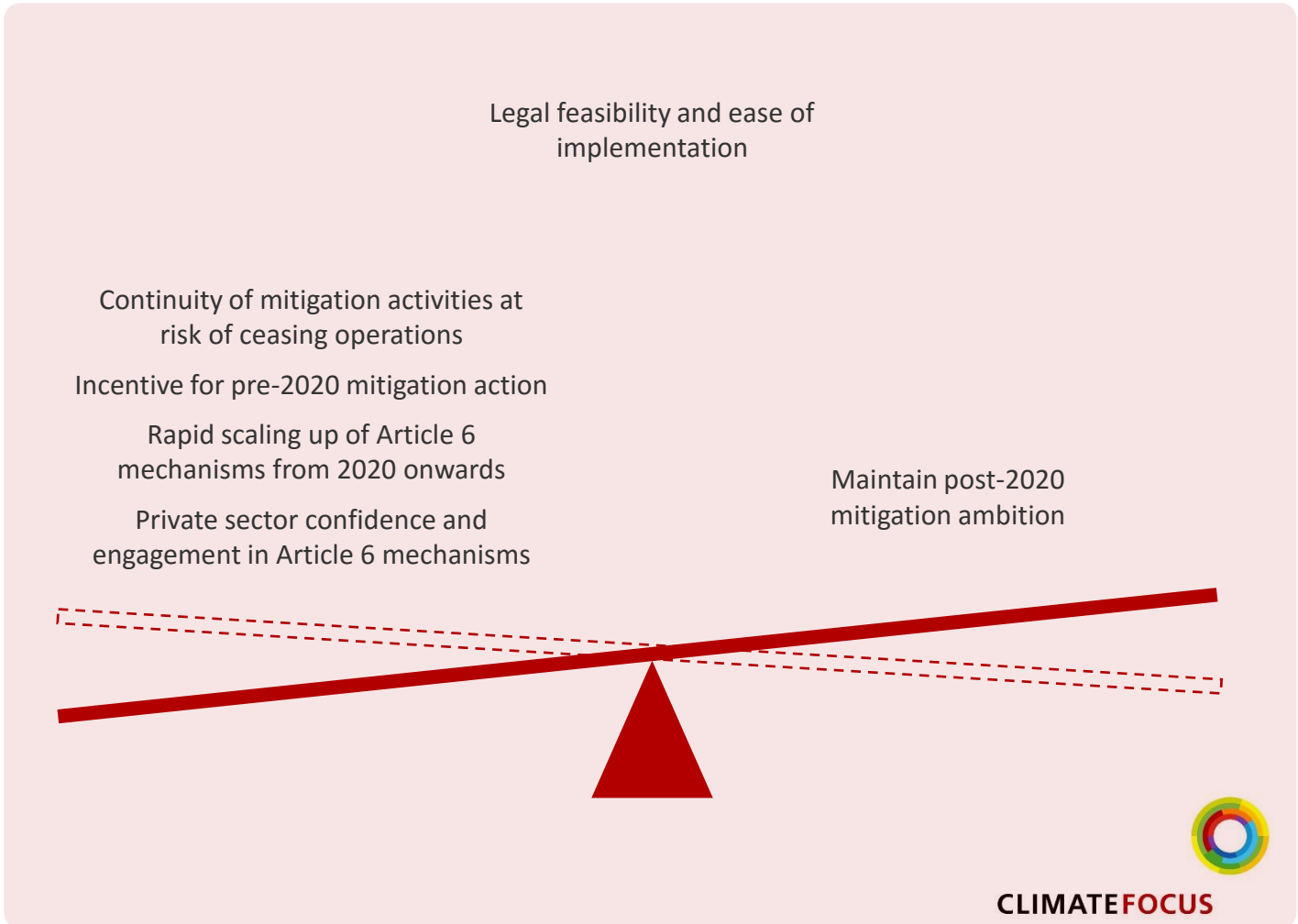
Assessment criteria

The criteria used to assess the transition of activities are relevant mostly to options for:

- Giving recognition for early action;
- Carry-over of CERs.

They reflect interests and concerns when transitioning credits.

Different stakeholders will weight these criteria differently. A balance needs to be found among them.



Chapter IV

Transitioning credits

Recognizing early action

These options relate only to CDM activities that would qualify for migration to Article 6. The variation would therefore only concern how far back the recognition of early action should extend to.

Such recognition could not stretch back into the first commitment period of the Kyoto Protocol, as CERs issued for reductions in this first period are already no longer valid for use under Kyoto – unless they have been carried over from the first into the second commitment period (in which case, an argument for early action recognition could be made but this would stretch a long way back).

Option 1

Early action recognition for all CERs for reductions made **during Kyoto's second commitment period**

- Jan 2013 to Dec 2020 (or to Dec 2019, if a migration date is set for 1 Jan 2020)
- This would maximize opportunities for activity owners to earn value on pre-2020 reductions they have made

Option 2

Early action recognition for all CERs for reductions made **from 1 Jan 2017 onwards**

- The specific date is arbitrary, but is here set as a year after the adoption of the Paris Agreement and half way through the 2nd commitment period
- This option focuses the early action incentive on new activities arising in anticipation of the Article 6.4 mechanism



**Chapter IV****Transitioning credits****Early action options – how they measure up**

The options on the previous slide differ only in the volume of credits likely to be brought into the post-2020 period for use against NDCs. Allowing all reductions from the second commitment period associated with migrating SDM activities provides the greatest likelihood that current mitigation activities will be continued and that the rapid scaling up of the Article 6.4 mechanism will be helped. It also provides the greatest boost to private sector confidence. However, it also has the greatest impact on reducing post-2020 ambition.

Allowing only reductions from 2017 onwards indicates the same impacts, but smaller, due to less expected volume of CERs from these years. The exception is that this option may show a greater incentive for pre-2020 action, as the more limited carry-over may crowd out new activities less and therefore encourage them to a greater extent to come on stream. This option would however be more difficult to implement, as the date of the reduction (within the second commitment period) is not apparent from the serial number and a pro rata calculation may be needed to distinguish those before and after 1 January 2017.

Options	Preservation of mitigation activities	Incentive for pre-2020 mitigation action	Rapid scaling up of Article 6 mechanism	Maintain post-2020 mitigation	Private sector confidence and engagement	Legal feasibility and ease of implementation
1. Reductions made in CP2	++	+	++	--	++	+
2. Reduction made from 2017 onwards	+	++	+	-	+	-



Chapter IV

Transitioning credits

Carry-over of CERs

These options relate to CERs from any CDM activity, irrespective of whether it is may be migrated to Article 6. Given concerns for a potentially large carry-over of CERs, these options could enable ways to limit the size of the carry-over.

The carry over of CERs between the first and second commitment periods under the Kyoto Protocol was limited by a percentage constraint (2.5% of a country's assigned amount). The same was done for ERUs from joint implementation.

As with options for recognizing early action, these options do not consider CERs from the first commitment period.

Option 1

Carry-over allowed for **all reductions** made during Kyoto's second commitment period

Option 2

Partial allowance of carry-over, limited by **filters**, for example:

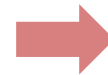
- Only CERs from PoAs
- Only CERs from specific activity or technology types
- Only CERs from specific regions
- Only CERs from specific vintages (years when reductions made)

Option 3

Partial allowance of carry-over limited by **constraints**, for example:

- Limited to a percentage of emissions or a target
- Discounting of credits (e.g. 1 CER may be carried over for each two that are available, with the other CER being cancelled)



**Chapter IV****Transitioning credits****Carry-over options – how they measure up**

Allowing the carry-over of all CERs from the second commitment period scores badly on all criteria except ease of implementation, as the large influx of CERs unconnected to CDM activities is likely to crowd out the CDM activities themselves and dilute post-2020 ambition. In this situation, even private sector confidence can be expected to fall.

The partial allowance options are generally more acceptable. This confirms that the major consideration concerning carry-over is to find a balance between keeping the value of units at the end of a period and ensuring ambition in the next period is maintained. The use of constraints (e.g. percentage limits or discounting) would be the easier to implement than the use of filters, as the filter criteria considered here are not immediately apparent from a CER's serial number.

Options	Preservation of mitigation activities	Incentive for pre-2020 mitigation action	Rapid scaling up of Article 6 mechanism	Maintain post-2020 mitigation	Private sector confidence and engagement	Legal feasibility and ease of implementation
1. Reductions made in CP2	--	-	-	--	-	++
2. Partial allowance limited by filters	-	0	0	-	+	-
3. Partial allowance limited by constraints	-	0	0	-	+	+





MENU



Chapter V

Transitioning CDM rules

Content

Negotiation context

Compatibility assessment

Hierarchy

Where would negotiations take place?



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Chapter V

Transitioning CDM rules

Already on the negotiations agenda

CMA to adopt the rules of the Article 6.4 mechanism based on

‘experience gained with and lessons learned from existing mechanisms and approaches adopted under the Convention and its related legal instruments’ (decision 1/CP.21, para 38(f)).

Currently negotiated under CMA/SBSTA: PA Work Programme (Art. 6.4)

Transition of full CDM rulebook to Article 6.4 is highly unlikely:

- If Parties intended this, they would have chosen a different wording in para 38(f) when setting up the work programme
- Different regulatory context of KP and PA architecture requires differences in the M&P of the mechanisms
- Other CDM reforms were sought by some Parties before transition




The CDM rulebook can however provide a solid starting point for the Article 6.4 rules (*see following slides*)



Chapter V

Transitioning CDM rules - Interpretation of compatibility assessment CDM/Art 6.4

In comparing the CDM and Article 6.4 provisions, three possible overall categories emerge.

-  **Likely compatible:** a number of elements have corresponding provisions for the CDM and Article 6.4 and in some cases make use of similar wording.
-  **Somewhat compatible:** For some elements, provisions from the CDM could be taken as starting point but would have to be further developed in order to be fully compatible with Article 6.4
-  **Less compatible:** provisions for the CDM and Article 6.4 mechanism are clearly not the same and would have to be changed

The following slides highlight the main areas where compatibility may already exist versus areas where rules of the CDM would have to be adjusted either somewhat or entirely to serve Article 6.4.

The comparison is based on Article 12, KP (CDM), 3/CMP.1 (CDM M&P), Article 6 PA and 1/CP.21, para 38

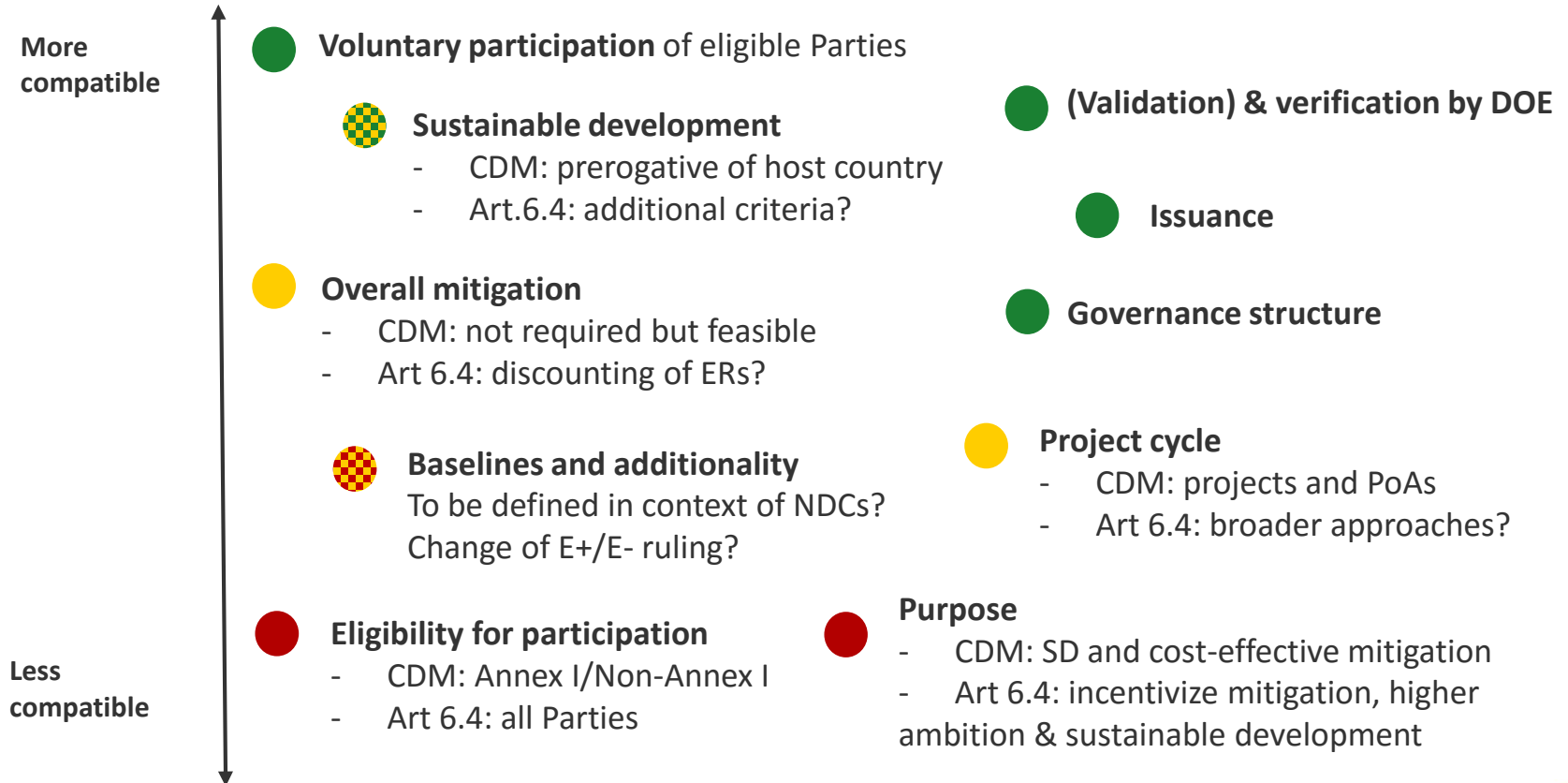
[Click here](#) for underlying comparison of elements pertaining to CDM/Art 6.4



Chapter V

Transitioning CDM rules

Comparing CDM and Article 6.4 – A possible interpretation





Chapter V

Transitioning CDM rules

Hierarchy of transitioning an adapted CDM rulebook



Chapter V

Options for building on the CDM rules

Where would negotiations take place?

Option 1

CMA/SBSTA: PA Work Programme on Article 6.4

- CMA/SBSTA prepares rules of the Article 6.4 mechanism on the basis, inter alia, of experience and lessons from the CDM and other mechanisms
- The CDM rulebook can be the starting point, with Parties suggesting adjustments they wish to see
- Contact group can use spin-off groups as a more informal space for debate and drafting

Pros/Cons:

- ↑ Logical place for these negotiations to occur;
- ↓ Speed of negotiations. It may be a while before the SBSTA begins technical drafting work.

Option 2

CMP/SBI - Review of the Modalities and Procedures of the CDM

- CMP/SBI repurposes the agenda item on the CDM M&P review to adapt the CDM rulebook, with the result forwarded to the CMA for consideration as an input to the Article 6.4 rules

Pros/Cons:

- ↑ Already in technical work mode; can add negotiation time to what is already available in SBSTA on Art 6.4
- ↓ Contentious agenda item with low past success rate. CMP has no jurisdictional power over Article 6.4 and cannot prejudge outcome in the CMA. Would split the work on the CDM M&P from the negotiations directly on Article 6.4

Option 3

Development of options by the CDM Executive Board

- CMP could task the CDM EB by way of annual guidance to develop options for how the CDM M&P could be adapted to facilitate transition to Article 6.4
- Alternatively, the EB could take it upon itself to develop options

Pros/Cons:

- ↑ Technical expertise and time availability of CDM EB and its panels to deal with the issues.
- ↓ CDM EB has no jurisdictional power over Article 6.4 and cannot prejudge outcome in SBSTA. Concerns about the role of a regulatory body conducting work with such a significant political element. Would split the work on the CDM M&P from the negotiations directly on Article 6.4





Chapter VI

Transitioning institutions

Content

Transitioning institutions

Relevance of CDM institutions for Art 6

Executive Board – Option 1

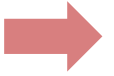
Executive Board – Option 2

Example of option 2

DNAs

Registry





Chapter VI

Transitioning institutions

Next to transitioning the CDM rules, **individual institutions** created by the CDM could potentially play a useful role in Article 6.4.

Advantages may include a quicker start, the fact that many issues have already been addressed by Parties, familiarity of governments and stakeholders with the institutions, and their integration into the UN system as well as with Parties' domestic institutions.

Disadvantages may include a missed opportunity to review of the efficiency, responsiveness and suitability of the institutions.

If CDM institutions were to be used under Article 6, two **broad options** exist

- New institutions could be created under Article 6 that mirror or draw heavily on the CDM institutions;
- CDM institutions set up under Kyoto could be designated by the CMA to serve the Paris Agreement (requires reciprocal CMP decisions)



Chapter VI

Overview of CDM institutions and their relevance for Art. 6.4

CDM Institutions	Provisions in Art 6.4	Compatibility?
Executive Board	Supervision by body designated by CMA	Possibly, but roles and membership may be different (greater professionalization, different composition)*
Panels (Methodologies, Accreditation)	No mention	Possibly, but different set-up of panels may be needed, aligned with “specific scopes of activities”
Designated National Authorities	Voluntary participation authorized by Party	Yes, however the role of DNAs may be broadened (e.g. ensuring sustainable development, avoidance of double counting)
Designated Operational Entities	Mentioned in para 37(e)	Yes. Not a UN body, so formal transition is not needed, although accreditation could be carried over or fast-tracked
Regional Collaboration Centres	No mention	Yes, could play a role in supporting future transactions. No need for transition as RCCs are part of the Secretariat infrastructure
CDM registry	No mention	Possibly, but adaptations may be needed



* See UNFCCC Secretariat Technical Paper “Possible changes to the modalities and procedure for the clean development mechanism”, 19 March 2014



Chapter VI

Options for transitioning the EB and its panels

Option 1**A new supervisory body is created that uses the EB as a model**

- CMA establishes a new body to supervise the Art. 6.4 mechanism that broadly reflects the modalities of the current EB but makes adjustments where these are warranted. This option could take as a starting point the roles, functions, composition, voting rules, rules of procedures already in place for the EB, including the general guidelines for panels and working groups:
 - CMA could make use of and draw from (i) rules of procedure of the EB; (ii) terms of reference related to membership of the EB; (iii) terms of reference of support structure of the EB; and (iv) code of conduct;
 - CMA could make any adjustments it feels necessary;
 - CMA could opt to appoint some or all current EB members and alternate members to the new supervisory board.
- Preparatory work and recommendations for necessary adjustments could be conducted by the secretariat or collected through submissions from Parties and stakeholders

Pros/Cons

- ↑ Work and decisions are independent of Kyoto, which avoids risks from needing to coordinate decisions between CMP and CMA. No risk from the same institution reporting to different governing bodies;
- ↓ More aspects would be open for negotiation, which may slow down agreement on the rules



Chapter VI

Options for transitioning the EB and its panels

Option 2

EB is designated by the CMA to serve the Paris Agreement

- CMP would recognize that the EB may serve the Paris Agreement;
- CMA would designate the EB as the supervisory board of the Article 6.4 mechanism. EB may continue making use of panels and working groups (as these are under the authority of the EB);
- Consideration could be made as to whether adjustments in the EB are necessary in the context of its work for the Article 6.4 mechanism, for example for composition or election processes. Preparatory work could be conducted by the secretariat or the EB and submitted to the SBSTA for consideration;
- Possible variations on this approach may include that the EB reports separately to the CMP and CMA in relation to its different areas/functions, or that EB reports to only to the CMA once the Article 6.4 mechanism becomes fully operational.

Pros/Cons:

- ↑ Starting point for transition arrangements arguably more advanced. Negotiations could focus first on what should not be replicated or maintained.
- ↓ May be greater tendency to lock in the status quo; Coordinated set of decisions between CMP and CMA is required; EB (and CDM) possibly under concurrent authority of CMA and CMP; any adjustments to the EB in the context of the Article 6.4 mechanisms may be constrained by the need for coordination with the CMP and may only be possible if the CDM ceases operation.



Chapter VI

Options for transitioning the EB and its panels

An example of option 2 – the Adaptation Fund

Paris
COP 21/ CMP 11

COP: Adaptation Fund (AF) may serve the PA, subject to the relevant decisions by the CMP and CMA

CMP: Recommends the CMA to consider whether the AF may serve the PA and invites the COP to request the APA to undertake necessary preparatory work

Marrakech
COP 22/ CMP 12 / CMA 1-1

COP: Requests the APA to address governance, inst. arrangements, safeguards and operating modalities

CMP: Takes note of the information provided by the AF on the added value of the AF in operationalizing the PA

CMA: Decides that the AF should serve the PA, consistent with decisions taken at CMA 1-3 and by the CMP

Poland
COP [24] / CMP [14] / CMA 1-3

COP: APA to present its recommendations on the preparatory work to the CMP

CMP: To take decision that addresses governance, inst. arrangements, safeguards and operating modalities

CMA: To take decision on AF serving the PA



Chapter VI

Options for transitioning DNAs

Option

Countries may appoint existing CDM DNAs to function under the Art. 6.4 mechanism

- The Article 6.4 rules would incorporate the same or similar roles and functions for DNAs as for the CDM. Countries may – if they wish – appoint their existing DNAs to fulfil these.
- Countries may also wish to use their DNAs for similar roles under cooperative approaches in the Article 6.2 context. This would help create consistent approaches across mechanisms, such as on activity approval processes and sustainable development guidance.
- CMA may also:

Formalize or clarify some of the existing roles and responsibilities already attributed to DNAs based on EB decisions and procedures (e.g. powers to withdraw or suspend approval/authorization; issue a written no-objection for voluntary deregistration; propose measures that are to be deemed automatically additional);

Expand and clarify roles and responsibilities of DNAs in the context of Art. 6.4.

Pros/Cons

- ↑ May allow for quicker set-up of national roles for the Art. 6.4 mechanism;
- ↓ If DNA roles are expanded and/or modified, they may still require adjustments to legal and administrative procedures at national level.



Chapter VI

Options for transitioning the CDM registry

Option

CDM registry to serve the Article 6.4 mechanism

- CMP recognizes that the CDM registry may serve Art. 6.4 of the Paris Agreement
- CMA designates the CDM registry as the central registry of the Article 6.4 mechanism. This could carry out the issuance and holding of Article 6.4 credits, as well as perhaps their transfer, acquisition, cancellation and use, on behalf of at least those countries that opt for such a service. The CMA could also designate the secretariat to continue as registry administrator
- A central registry under Article 6.4 could potentially be extended for use by countries that wish to use it for Article 6.2 cooperative approaches but do not wish to implement or maintain one.
- Preparatory work and recommendations for necessary adjustments could be conducted by the secretariat. Adjustments could include defining bodies to provide instructions to the registry; defining types of units allowed; reviewing/removing differentiation related to non-Annex I and Annex-I Parties; reviewing distribution of holding accounts (possibly open to all); and the calculation and separation of units for the share of proceeds.

Pros/Cons

- ↑ Faster operation of a new registry system. Could use existing specifications for data exchange standards and could integrate with the existing or a new transaction log
- ↓ CDM registry may provide limited functionality for the purposes of Article 6.4 and markets





MENU



Chapter VII

Options for the CDM

Content

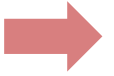
Relevance

Legal Basis

Functionalities

End-date Options





Chapter VII

Options for the CDM – Relevance

Why is this relevant?

How long the CDM continues to operate is a related but different question from the issues discussed before - how CDM activities or credits could be migrated or how CDM rules and institutions can help build the Article 6 mechanisms. Deciding on what happens to the CDM itself can be considered secondary in nature.

Having an end-date to the CDM's operation may nevertheless be **desirable** to:

- Not have two UNFCCC crediting mechanisms with the same objectives running in parallel
- Concentrate the “energy” of UNFCCC crediting in one mechanism
- Provide planning certainty to project participants
- Ensure a smooth transition from CDM to Article 6.4

However, one could also argue that **no end date is needed** because the CDM could continue in parallel to Article 6.4, if there is interest in using it for results-based climate finance or feed credits to Art. 6.2 cooperative approaches.





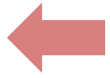
Chapter VII

Options for the CDM – legal basis

The legal basis

- The **mandate** of the CDM in the Kyoto Protocol has no end-date and its operation is not tied to commitment periods (CP). CDM continues to be fully functional today even though CP2 has not yet entered into force
- However, the **operation** of the CDM can be terminated *actively* or *de facto*
 - By CMP decision;
 - If no more resources are available to sustain the CDM infrastructure;
 - If the CDM Executive Board loses quorum (lack of nominations).





Chapter VII

Options for the CDM – functionalities

- Some infrastructure/functionality has to be maintained during the CP2 true-up period, expected to end in mid-2023
- After that, maintenance of all CDM functionalities is an optional choice

	During CP2 true-up	After CP2 true-up
CDM EB	✓	Optional
CDM registry/ITL	✓	Optional
Issuance CP2 credits	✓	Optional
Issuance post 2020 credits	Optional	Optional
Project registration	Optional	Optional



Chapter VII

CDM end-date options

Option 1

In 2020

Stop registering activities and issuing credits for reductions made after 2020 (but continue CP2 issuance until dates for options 2 or 4)

Option 2

At the end of the CP2 true-up period

Stop all functionalities at this point, including registration and issuance for post-2020 reductions, if they are still running

Option 3

Once Art 6.4 mechanism is operational

Stop registering activities and issuing credits once 6.4 is functional (but continue CP2 issuance until dates for options 2 or 4)

Option 4

Any arbitrary date after true up

Stop all remaining functions after the true-up period and at a point when insufficient activities remain to warrant the resources needed to run mechanism.

Option 5

No end date,
continue the CDM



Content

Article 6.4/CDM comparison

CDM and domestic carbon pricing

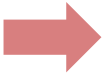




Article 6.4/CDM comparison (1)

Art 6.4	Elements	CDM
'To contribute to the mitigation of greenhouse gas emissions and support sustainable development' (Art. 6.4)	Purpose	'To assist Parties not included in Annex I in achieving sustainable development [...], and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments.' (KP Art 12.2)
'A mechanism [...] is hereby established [...] for use by Parties on a voluntary basis.' (Art. 6.4, <i>does not distinguish between parties</i>) 'It shall aim [...] to contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its nationally determined contribution' (Art. 6.4(c)).	Participation and eligibility	'[...] on the basis of voluntary participation' (KP Art.12.5). 'Parties not included in Annex I will benefit from project activities resulting in CERs; and Parties included in Annex I may use the CERS accruing [...] to contribute to compliance with part of their quantified emission limitation and reduction commitments under Article 3' (KP Art 12.3)
'Participation [...] by public and private entities authorized by a Party' (Art. 6.4 (b))	Authorization	'Written approval of voluntary participation from the DNA of each Party.' (3/CMP.1)
'Specific scopes of activities.' (Para 38(c), Parties raise broader approaches and inclusion of REDD+ in the negotiations, not further defined)	Scope	'Acceptance by the Executive Board of a validated project (and PoAs) as a CDM project activity' (3/CMP.1)
'It shall be supervised by a body designated by the CMA' (Art. 6.4,)	Governance	'subject to the authority and guidance of the CMP serving as the meeting of the Parties to this Protocol and be supervised by an EB of the CDM' (KP Art 12.4) 'Parties participating in the CDM shall designate a national authority for the CDM.' (3/CMP.1)

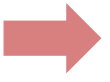




Article 6.4/CDM comparison (2)

Art 6.4	Elements	CDM
<p>'Recommends that the CMA [...] adopt rules, modalities and procedures for [...] Article 6, paragraph 4, on the basis of: [...] (b) Real, measurable, and long-term benefits related to the mitigation of climate change; [...] (d) Reductions in emissions that are additional to any that would otherwise occur; (e) Verification and certification of emission reductions resulting from mitigation activities by DOEs' (Para 38(c))</p>	<p>MRV</p>	<p>'Emission reductions resulting from each project activity shall be certified [...] on the basis of: Real, measurable, and long-term benefits related to the mitigation of climate change; and Reductions in emissions that are additional to any that would occur in the absence of the certified project activity. (KP Art 12.5)</p>
<p><i>Although a registry is not explicitly mentioned, it would be a relevant institution if Art 6.4 is establishing a crediting mechanism.</i></p>	<p>Issuance</p>	<p>'The Executive Board shall establish and maintain a CDM registry to ensure the accurate accounting of the issuance, holding, transfer and acquisition of CERs by Parties not included in Annex I.' (3/CMP.1) 'A "CER" is a unit [...] and is equal to 1tCO₂e. The baseline for a CDM project activity is the scenario that reasonably represents the anthropogenic emissions by sources of greenhouse gases that would occur in the absence of the proposed project activity.' (3/CMP.1)</p>
<p><i>No mention in Article 6.</i></p>	<p>Provision of Finance</p>	<p>'The clean development mechanism shall assist in arranging funding of certified project activities as necessary' ((KP Art 12.6)</p>





Article 6.4/CDM comparison (3)

Art 6.4	Elements	CDM
<i>No mention in Article 6.</i>	Prompt Start	CERs obtained during the period from the year 2000 up to the beginning of the first commitment period can be used to assist in achieving compliance in the first commitment period. (KP Art 12.10)
'A mechanism to [...] support sustainable development is hereby established'(Art 6.4) CMA to ensure that a share of proceeds assists developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation. (Art 6.6)	Sustainable Development	'The purpose of the clean development mechanism is to assist Parties not included in Annex I [...] in achieving sustainable development [...]' (3/CMP.1) 'Written approval [...] from the DNA [...], including confirmation by the host Party that the project activity assists it in achieving sustainable development' '[...] share of proceeds to cover administrative expenses and to assist in meeting costs of adaptation' (3/CMP.1)
<i>Not specifically defined;</i> 'Emission reductions resulting from the mechanism [...] shall not be used to demonstrate achievement of the host Party's NDC if used by another Party to demonstrate achievement of its NDC.' (Art 6.5)	Environmental Integrity	'The CMP [...] shall, elaborate modalities and procedures with the objective of ensuring transparency, efficiency and accountability through independent auditing and verification of project activities'(KP Art 12.7) 'The baseline for a CDM project activity is the scenario that reasonably represents the anthropogenic emissions by sources of greenhouse gases that would occur in the absence of the proposed project activity' (3/CMP.1)





Article 6.4/CDM comparison (4)

Art 6.4	Elements	CDM
<p>‘To allow for higher ambition in [...] mitigation and adaptation actions and to promote sustainable development and environmental integrity.’ (Art 6.1)</p> <p>‘To deliver an overall mitigation in global emissions.’ (Art 6.4(d))</p>	<p>Ambition</p>	<p>‘The purpose of the clean development mechanism is to assist Parties not included in Annex I [...] in achieving sustainable development [...] and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under [...] the Kyoto Protocol’; ‘the use of the CDM shall be supplemental to domestic action’ (3/CMP.1)</p>



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Domestic use of the CDM – Relevance

In the process of adopting sector-wide carbon pricing schemes, some non-Annex-I countries have already transitioned their CDM pipeline into domestic demand structures. Others are in the process of contemplating how the introduction of carbon taxes, emission trading schemes or other domestic policies may leverage CDM activities and infrastructure.

The following slides detail the approaches taken by **China, South Korea** and **South Africa** towards integrating the CDM into their carbon pricing schemes.

The examples of these front-runners provide important lessons how CDM and sectoral policies could work together. Considering the principle of progression of the Paris Agreement, based on which developing countries are encouraged to move towards economy-wide NDCs over time, a domestic transition from project-based crediting to national carbon pricing schemes becomes an important consideration.



Case study 1 – China^{1,2}

Chinese ETS

China is expected to launch a national carbon market in the second half of 2017, building on years of carbon market experience through the CDM and recently through its eight pilot emission trading schemes (Beijing, Tianjin, Shanghai, Guangdong, Hubei, Shenzhen, Chongqing, Fujian).

There are four types of CDM projects with eligibility for Chinese CER (CCER) issuance under the pilot scheme¹ (with varying applicability in pilot areas):

1. CDM projects registered by the UNFCCC with unissued CERs;
2. CDM projects approved by the NDRC, but not yet registered by the UNFCCC;
3. CDM projects approved by the NDRC with emission reductions produced before registration with the UNFCCC (“pre-CDM” projects); and
4. Projects that adopt the methodologies approved by the NDRC.

- **CCERs are issued under the domestic scheme and not under the CDM (no voluntary cancellation)**
- Chinese Certified Emissions Reduction (CCER) credits are the secondary instruments used for compliance in the Chinese emissions trading pilots
- 349 CCER projects have issued a total of 67 MtCO₂e so far; 1,049 registered projects are currently awaiting issuance²
- CCERs can be used for offsetting based on various limits for each pilot
- High level of uncertainty as to eligibility of CCER activities under national ETS following the pilot phase from 2017 onwards³



Case study 2 – South Korea

South Korea ETS

The Korean Emissions Trading Scheme (KETS) is the government's policy instrument aiming to achieve its 2030 emission reduction target:

- In KETS phase I (2015-2017) and phase II (2018-2020), crediting activities located in South Korea and implemented since April 2010 (including from the CDM) may supply offsets up to 10% of each entity's target. Trading firms are now actively engaged in cancelling CERs in the CDM registry and replacing these with credits eligible for KETS, in line with the short position on the Korean emissions market. To date, a total of **12.3 million CERs have been voluntarily canceled** and converted into Korean Carbon Units;
- In KETS phase III (2021-2025), crediting activities located outside Korea and implemented after 1 June 2016 may contribute up to half of the 10% limit on offsets. South Korea is considering allowing such international credits to be usable in phase II from 2018 onwards.

The South Korean government submitted its INDC with a commitment to reduce GHG emissions by 37% by 2030 (compared to BAU projections). Of these reductions, 11.3% can be met through the use of international credits. The government is now assessing the possibilities of making its INDC emissions target a multi-year goal instead of a single-year one, the implication of which would be a more immediate demand for international carbon credits.



Case study 3 – South Africa

South Africa Carbon Tax (in draft process)

A new Carbon Tax in South Africa is likely soon to be introduced, allowing for carbon offsets between 5% and 10% which offers taxpayers to reduce their carbon tax liability by investing in South African based approved carbon mitigating projects (CDM, GS, VCS)

- Projects that generate carbon offset credits must occur outside the scope of activities that are subject to the carbon tax. There is limited admissibility for offsets that are issued or began verification prior to 2017.
- Offsets are surrendered to the registry in exchange for a certificate that can be used for compliance with carbon tax obligations.
- CERs must be transferred to SA registry



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