



CDM Transition to Art. 6

Options after COP 25

Eastern Africa carbon market engagement: Regional foundations for Article 6 implementation

Session 1: Carbon market engagement & CDM Transition

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Agenda

- Where do we stand with CDM transition?
- Key negotiations issues (Art.6)
 - Transition of methodologies
 - Transition of activities
 - Transition of units
- Practical implications

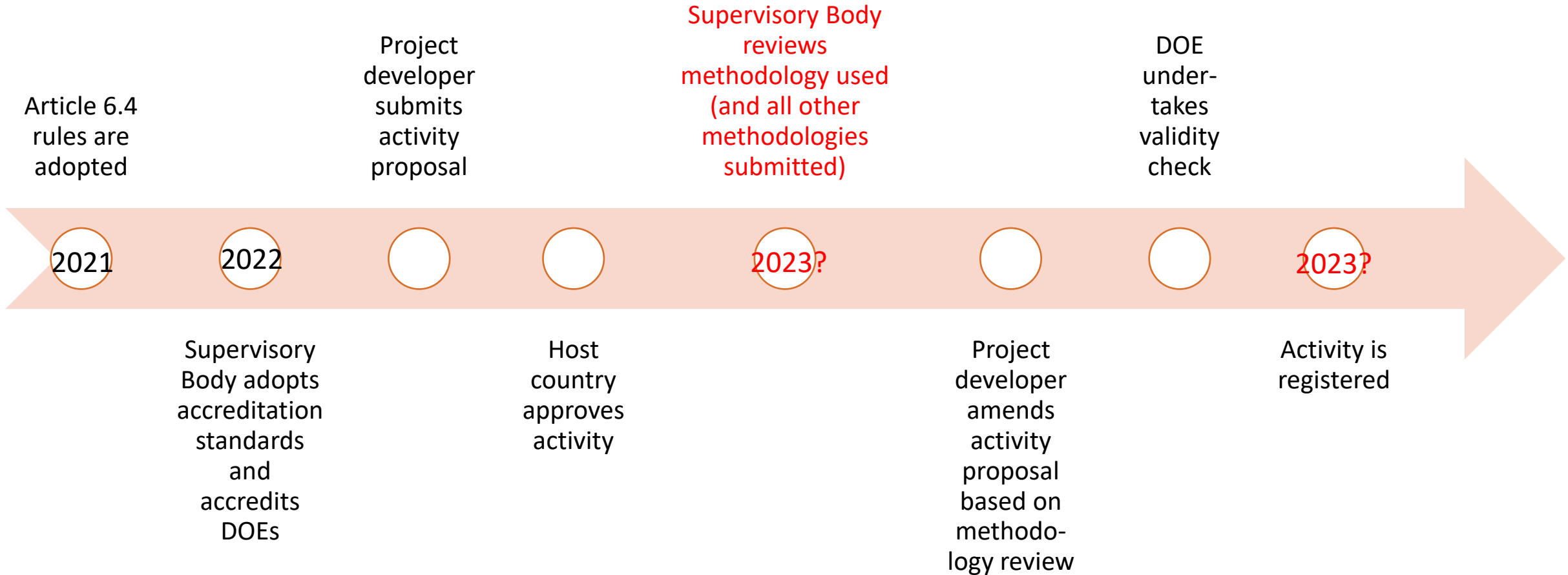
CDM transition- where do we stand?

- AGN pushed successfully for CDM reform, but African countries benefitted late from the CDM, after CER prices crashed
- At COP25, negotiations progressed significantly: compromise proposals
- Rules for CDM transition focus on 3 key questions (see CFI short study)
 - What is the role of CDM methodologies for the A6.4M?
 - Under which conditions can CDM activities re-register under the A6.4M?
 - Can pre-2020 CERs be used for compliance with post-2020 NDC targets?
- Key objective for COP26: Close the deal!
- Yet, deferral of SBSTA, CMP and COP until after end of KPCP2 prevents organized transition prior to 2021 → regulatory uncertainty increases dramatically after 2020

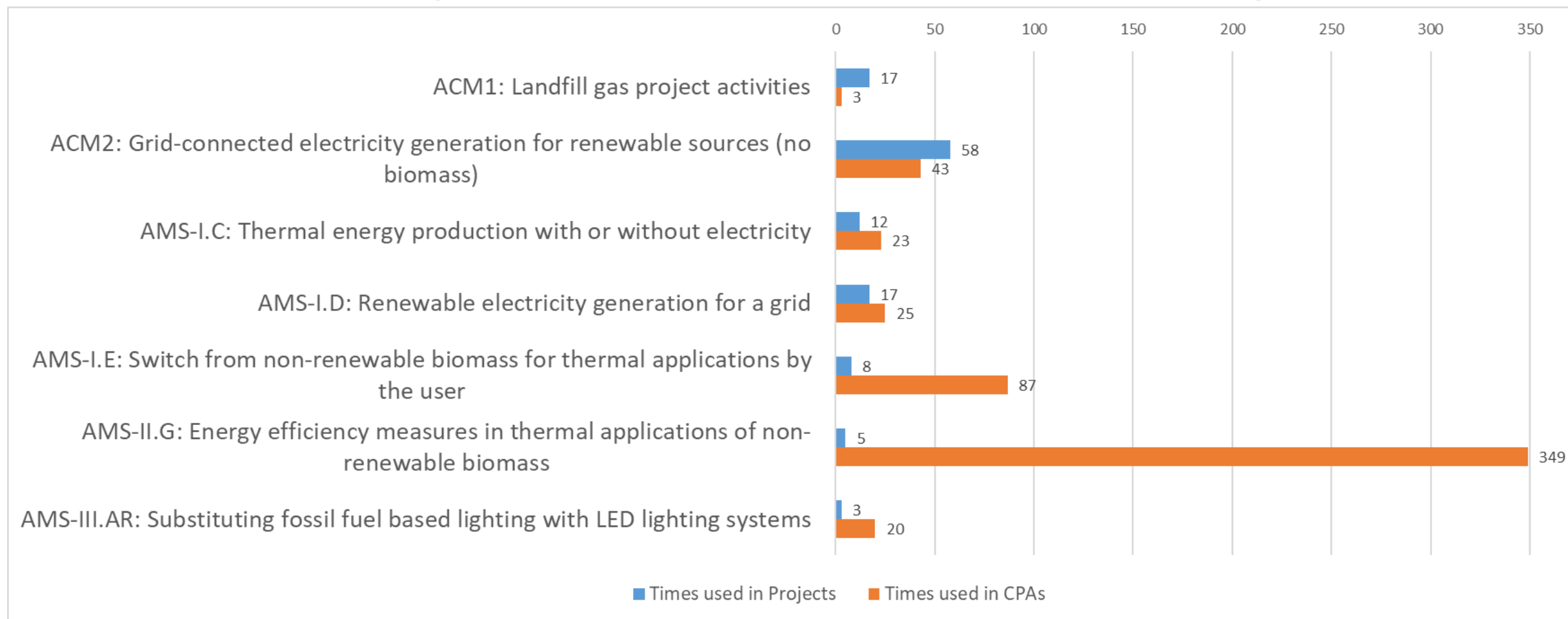
Presidency texts on methodology transition

- The **Supervisory Body reviews CDM (and other) methodologies, CDM accreditation standards and procedures** with a view to applying them with revisions as appropriate **by 2021**.
- When an activity is eligible for transition, it may **continue to apply the approved CDM methodology** either until the end of its current crediting period or until **31 December [2023]**, whichever is earlier.
 - Potential transition criteria (?): Baseline approaches, conservativeness, consideration of NDCs/policies

Process of methodology revision- feasible timelines?



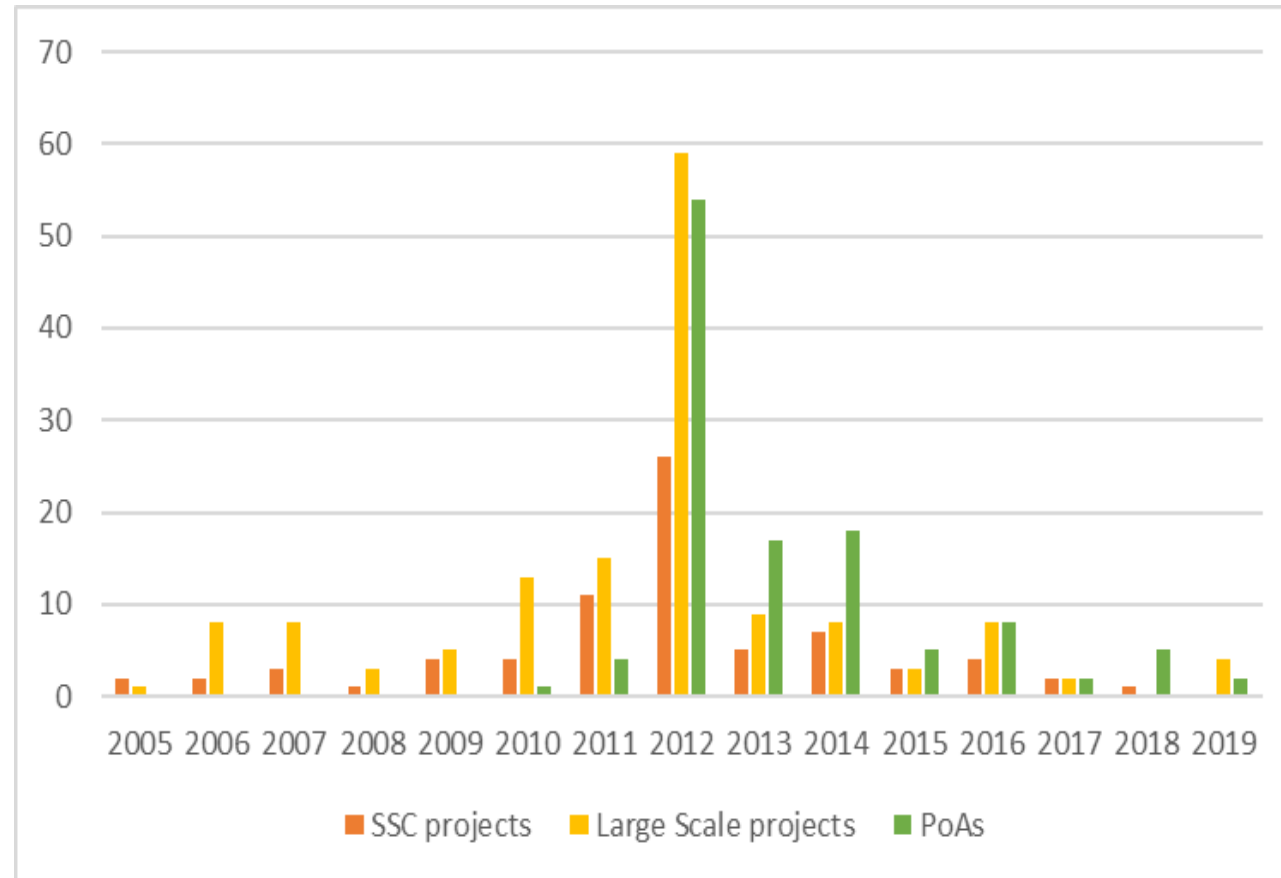
Fast-tracking relevant CDM methodologies?



Transition of CDM activities in COP25 Presidency text v.3

- The transition of activities is allowed following an **eligibility check**
- SBSTA to develop **criteria for the transition, steps of implementation** and a **fast track procedure for small-scale activities and PoAs**
- Before the transition, the **host Party has to communicate its approval**
- The transition shall be **completed no later than [2023]**
- The transitioned activity **may continue to apply the CDM methodology** until the earlier of the end of its current crediting period or 31 December 2023
- **A6.4ERs may be issued** for emission reductions achieved after 31 December 2020, in line with guidance on **corresponding adjustments**.

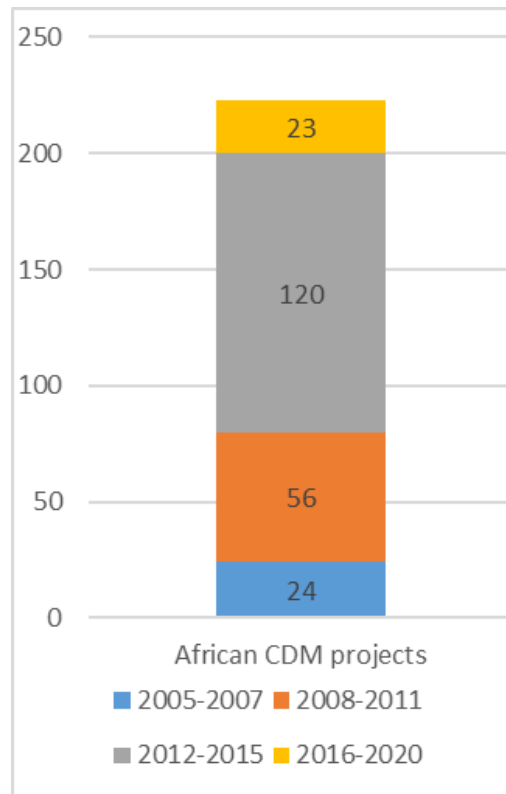
African CDM portfolio by registration year and category



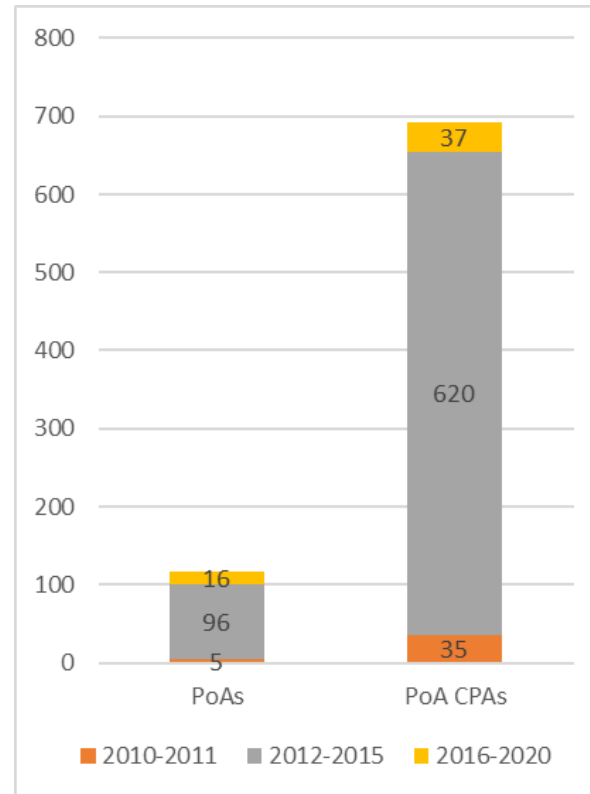
Source: UNEP DTU CDM and POA Pipeline

Most African CDM activities were registered in and after 2012.

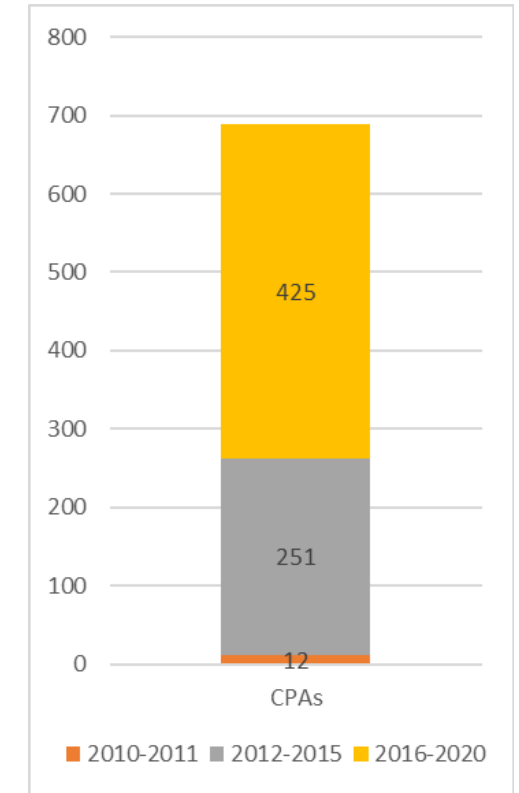
African CDM portfolio by registration year



Projects by registration date



PoAs and CPAs by PoA registration date



By CPA inclusion date

Recently, few new projects and PoAs were registered, but a substantial number of CPAs was added to (pre-2016) PoAs

Source: UNEP DTU CDM and PoA Pipeline (4/2020)

What needs to be in place for the transition of CDM activities to be operational?

SBSTA/CMA

- Adoption of **eligibility criteria** for transition
- Definition of **operational steps** for implementing transition
- Adoption of **expedited procedure** for small scale/PoA
- Constitution of **Supervisory Body** and election of members
- Decision on **infrastructure** for credit issuance and transactions

Supervisory Body

- Provision of templates for transition and process definition
- Adoption of DOE accreditation standard, accreditation
- (Re)Registration of transitioned activities under Art 6.4
- Adjustment of CDM methodologies for Art 6.4 (for application after [2023])

Host country

- Designation of national authority, national approval process and criteria defined

The urgency of “avoidance of a gap”

Due to Art 6 failure in Madrid and delay of COP 26 these **preconditions are impossible to achieve by 1 January 2021.** Short term solutions are therefore needed!

Function	CDM EB	SB
<u>Operational business</u> <ul style="list-style-type: none"> - Issuance of CERs - Renewal of crediting periods - Inclusion of CPAs into PoAs - (Registration of activities) 	X	
<u>Regulatory business</u> <ul style="list-style-type: none"> - Adjustment of methodologies - Adaptation of DOE accreditation, validation, verification standards - Conversion of post 2020 mitigation outcomes into A6.4ERs - Definition of processes and timelines, and templates - Art 6.4 registry 		X

CER transition- issues in negotiations

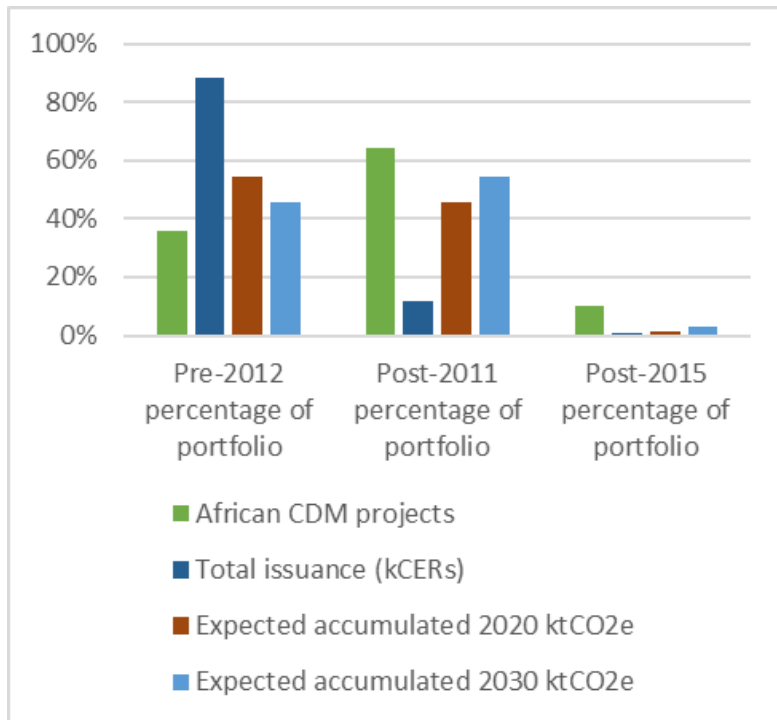
- Negotiation of the volume of CERs to be transitioned through proxies:
- The cut-off date for activities: only CERs from activities with a certain **registration date** would be eligible to transition.
 - Proposals range from early registration years (2008 / 2012) to late ones (2016)
 - (CORSIA decision: 2016-2020)
- The **cut-off date for use**: limiting the period until when transitioned CERs may be used (2023? 2025? 2030?)
 - Different implications depending on accounting approaches (multi-year target, single year target trajectory, single year target averaging)
 - Question: regulating **own use** as well?

CER transition- Presidency proposal

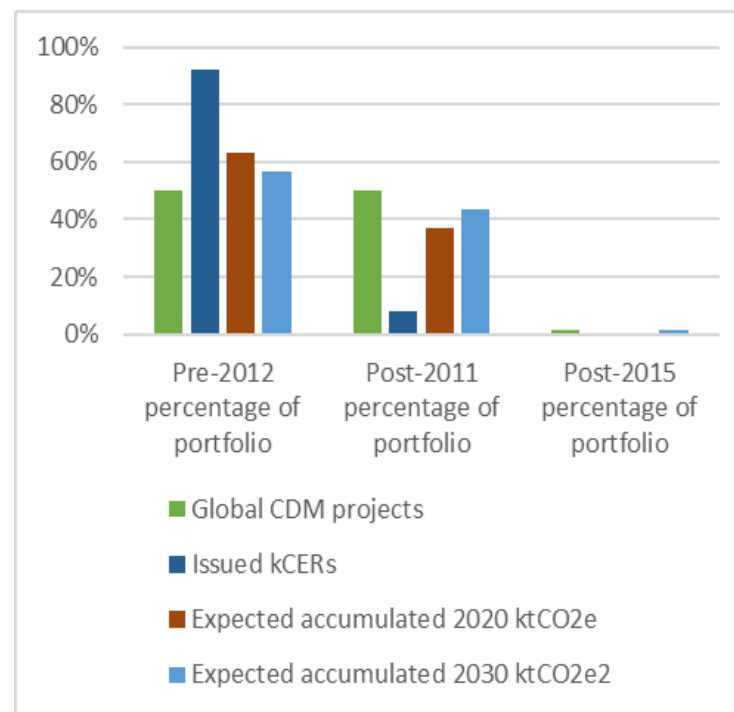
- CERs issued under the CDM **may be used towards the NDC of the host Party or another Party subject to conditions.**
- **Registration date** of the underlying CDM activity was on or after a date to be determined by the CMA (SBSTA to make recommendations and CMA to decide in November 2020)
- CERs have to be **used towards an NDC by no later than 31 December 2025**
- Corresponding adjustments only on the side of the using Party, not by the host Party
- Pre-2021 CERs to be reported in Parties' **transparency reporting**
- CERs that do not meet the above conditions may go into a **reserve** and may only be used in accordance with a future CMA decision.

Implications of registration cut-off dates

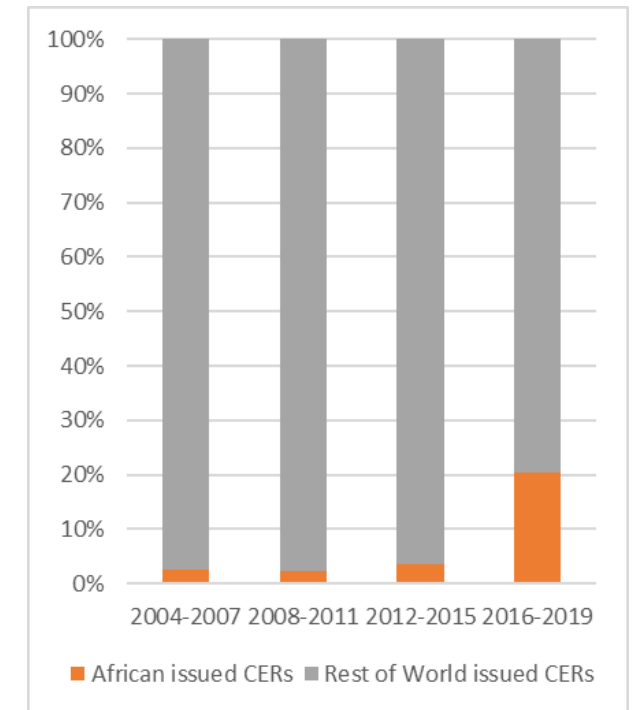
...on African project portfolio



...on global project portfolio

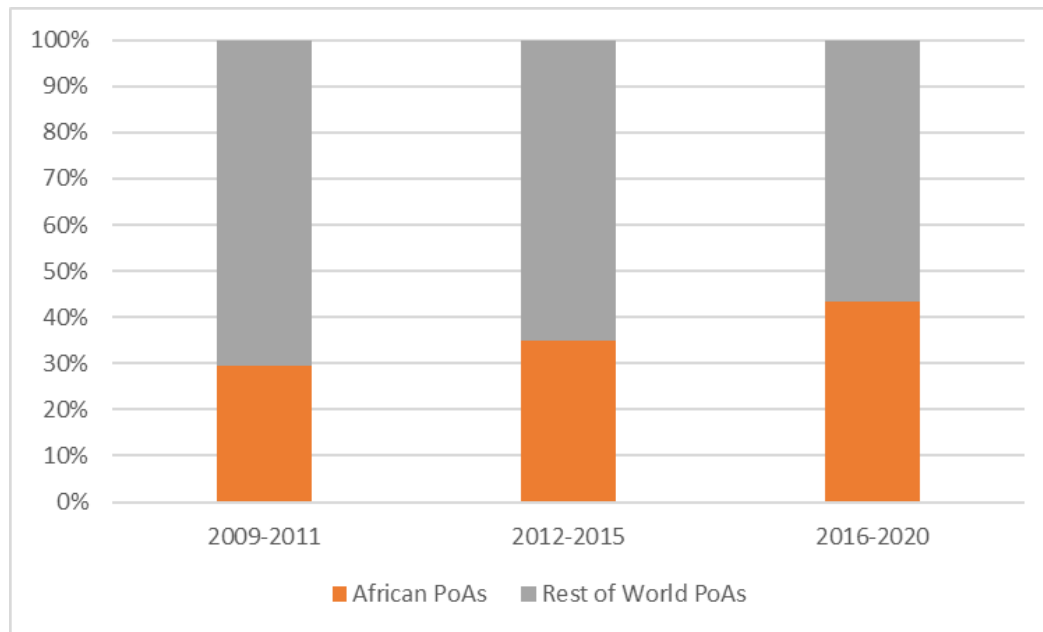


...on African share of global project portfolio

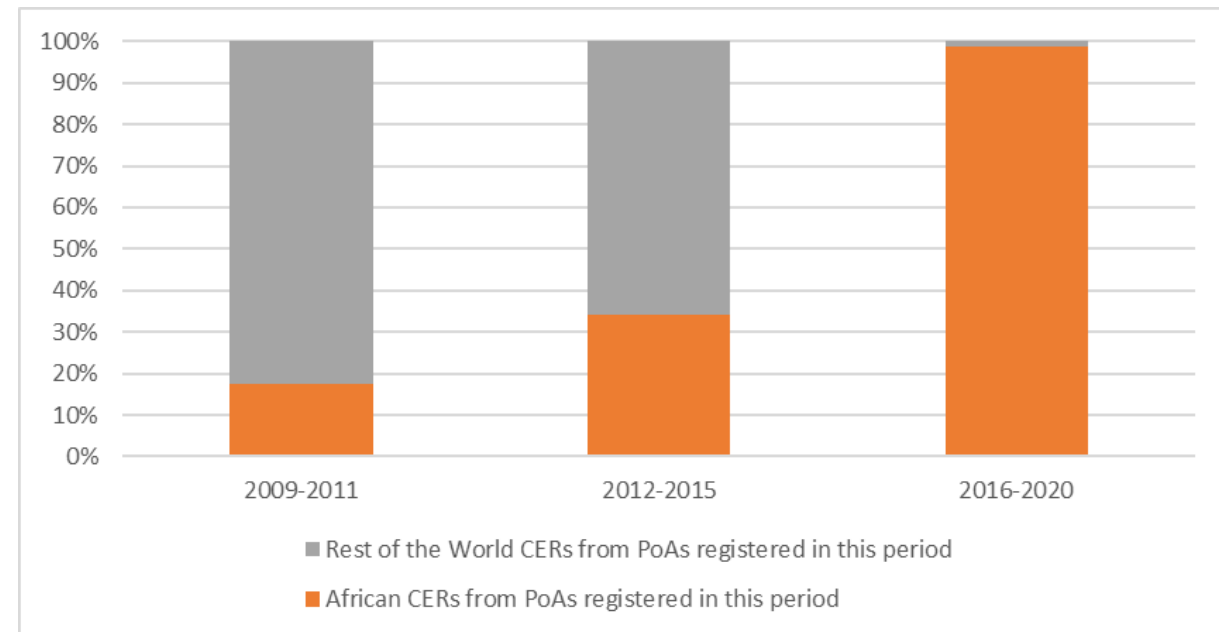


Implications of registration cut-off dates

...on African share of globally registered PoAs

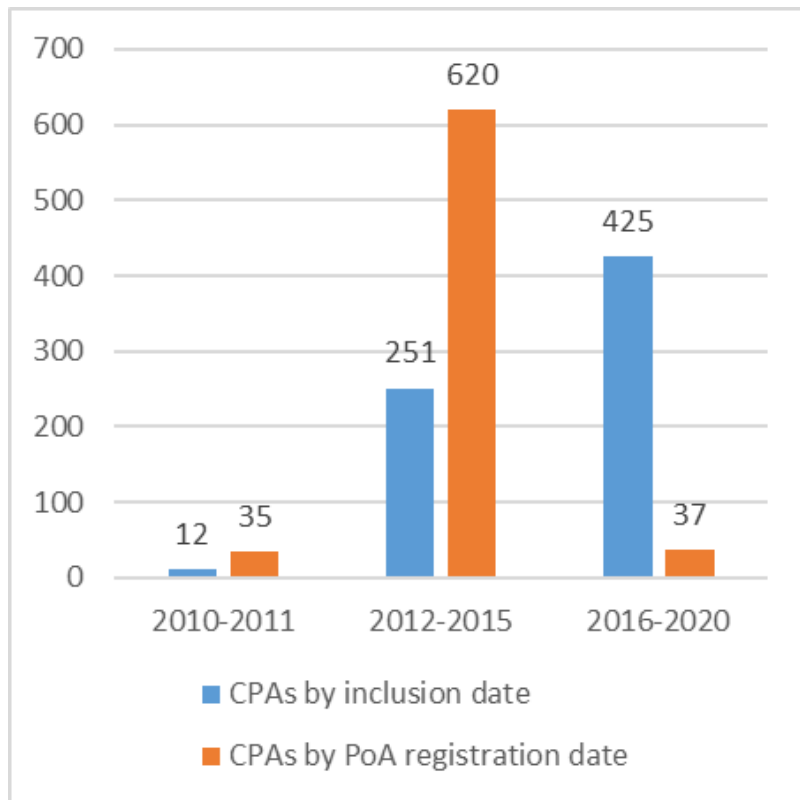


...on African share of globally issued CERs from PoAs

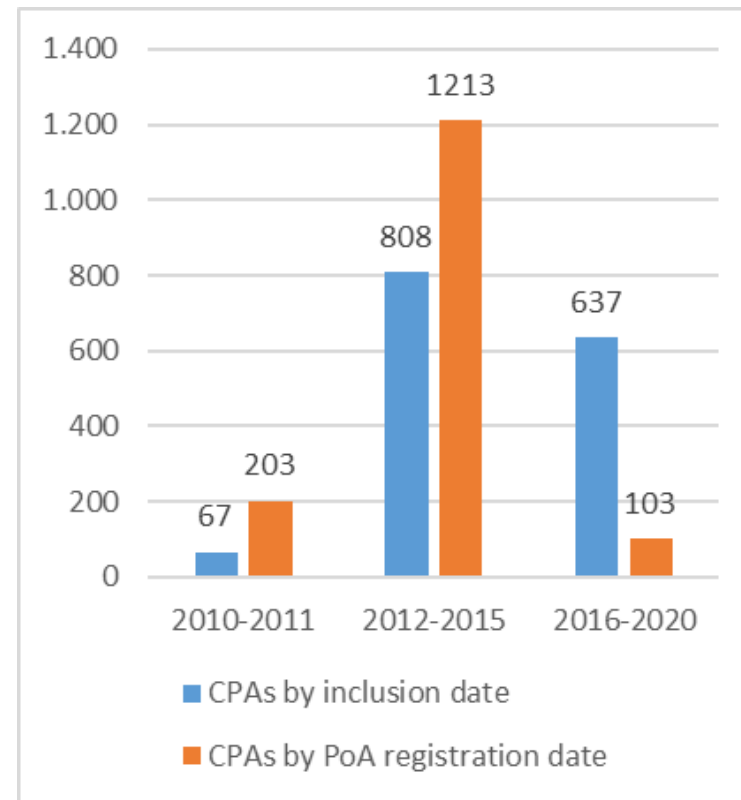


Important distinction: CPA inclusion date or PoA registration date

African portfolio impact



Global portfolio impact



CER transition- broader debate

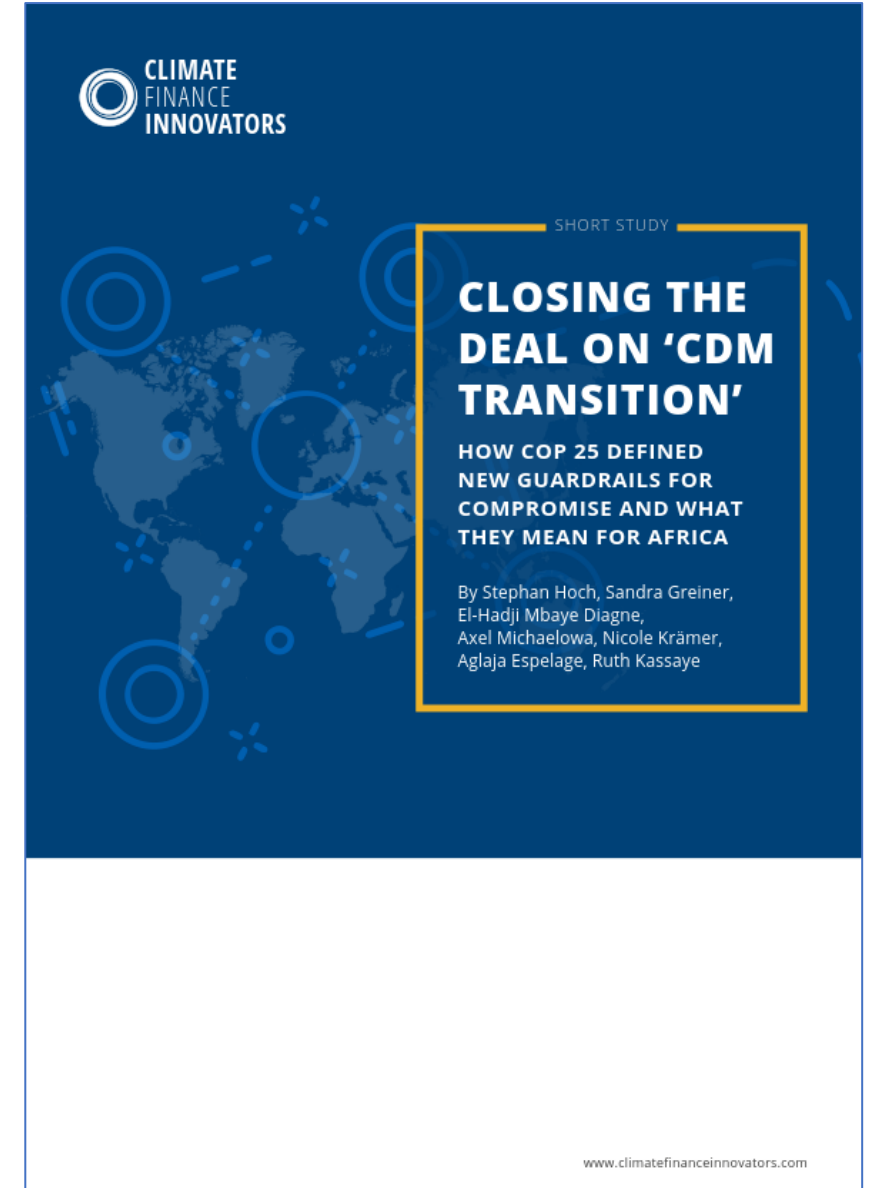
- Key challenge: lack of analysis and shared understanding of pre-2020 CER potential
- Ongoing discussion is broader than options in the Presidency text-package solution must be found to address incentive issues:
 - market liquidity, price signals, precedents for carry-over between NDC implementation periods
 - CER transition not based on vintage, but: Sectors (positive list or negative lists, volume per activity)
- Alternative CER uses beyond transition
 - Results-based finance, pre-2020 action, voluntary carbon market, CORSIA (?)
 - CORSIA pilot phase allows use of 2016-2020 units

Implications of lack of transition rules

- In the absence of UNFCCC negotiations, the **CDM EB plays a key short term role** for CDM transition
- Activity registrations, renewal of crediting periods, CPA inclusions, CER issuance are highly controversial, but crucial for operation of CDM/transition to Art.6
- Political aspects: It is crucial to understand mandate and authority of CMP vs EB
 - the EB operates under the authority of the CMP. Overarching decisions e.g. CER issuance; use of GWPs beyond 2020 relate to the overarching implementation of the CDM and should thus be decided by the CMP .
- Frustration with lack of regulatory certainty leads project developers to shift to voluntary carbon standards (what does this mean for a future UNFCCC mechanism?)

Closing the deal on ‘CDM transition’

- Short study contributes to elaborating rules, modalities and procedures of the Art 6.4 mechanism
- Analyses open issues and challenges concerning transition of CDM methodologies, activities and units
- The study proposes that Parties should:
 1. take into account realistic timelines
 2. decide for a sensible distribution of tasks among involved institutions (UNFCCC Secretariat, Article 6.4 Supervisory Body, CDM EB and host country institutions)
 3. Adopt clear guidance on overarching principles and criteria of the transition process that provides clarity to project developers and host country institutions.
- The study also pays particular attention to how the African CDM portfolio may be affected by the anticipated agreement on CDM transition to Article 6





Thank you!

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