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Submitted to:
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Chair of the SBSTA

**IETA'S INPUT ON TRANSITION OF CLEAN DEVELOPMENT MECHANISM (CDM)
ACTIVITIES TO THE ARTICLE 6.4 MECHANISM
IETA SUBMISSION TO THE CHAIR OF SBSTA**

INTRODUCTION

The [International Emissions Trading Association \(IETA\)](#) welcomes this opportunity to provide input on the Transition of Clean Development Mechanism (CDM) activities to the Article 6.4 mechanism. The COVID-19 pandemic has disrupted and halted the international negotiations on the implementation of the Paris Agreement, which could potentially cause harmful delays in the ability of the global community to respond to the climate crisis.

We therefore warmly applaud the initiative by the Chair of SBSTA, Tosi Mpanu Mpanu, to convene [informal technical expert dialogues](#) on Article 6 of the Paris Agreement. These informal dialogues can be instrumental in maintaining the momentum of the negotiations and helping prepare the groundwork for political negotiations at COP26 by bridging diverging positions and developing common understanding. It is essential that COP26 finalize the long-awaited rules on Article 6 amongst other pending decisions.

We are grateful that observer organisations representing the broader stakeholder community have also been invited to prepare submissions, as this can definitely enrich the discussion and bring more perspectives to the table. We hope that IETA's insights and recommendations, leveraging on the wealth of experience and expertise of our members, are used to inform these dialogues.

By way of brief introduction, IETA is a global multi-sector business association created in June 1999 to promote the establishment of a functional international framework for trading in greenhouse gas emissions. **As the leading international business voice on climate markets and finance**, IETA represents over 150 companies. IETA's market expertise is regularly called upon to inform market-based policies that deliver greenhouse gas (GHG) reductions and removals, address economic competitiveness concerns, and balance economic efficiencies with social equity and co-benefits.

IETA and its members actively support the advancement of the objectives of the United Nations Framework Convention on Climate Change and the Paris Climate Agreement, with a long history of engagement in the UNFCCC process.



IETA'S VIEWS ON TRANSITION OF CLEAN DEVELOPMENT MECHANISM (CDM) ACTIVITIES TO THE ARTICLE 6.4 MECHANISM

The climate framework set up in the Kyoto Protocol is an incredibly important and successful framework for international partnership on climate development. It has catalysed over \$300 Billion in climate finance and has reduced and removed over 2 Billion tonnes of CO₂e. The Article 6 framework of the Paris Agreement has the potential to be even more powerful.

Nevertheless, climate market participants are hurting right now. At COP25, the business community was eagerly waiting for Article 6 rules and implementation guidance to emerge. In particular, for several years the private sector urged clarity on the operational details of Article 6 of the Paris Agreement and on the future of the CDM. Although significant progress was made by the negotiating teams, the lack of an agreement in Katowice and in Madrid is putting the future of the sector at risk. Today, we are optimistic that the final Article 6 rules will be agreed upon. However, it is important to recognize that now many of the market participants are over extended and under stress, as they face an extreme level of uncertainty. To support them, and help the sector heal and deliver more climate benefits in the spirit of Article 6, specific efforts need to be made around the concept of operational continuity for eligible projects.

Certainty on Article 6 rules is essential for market continuity and unlocking climate capital including:

1. Continuity of climate project operations,
2. Access to climate capital which derives from investor confidence in climate projects and
3. Avoiding the disruption or termination of valuable climate mitigation efforts which have taken years to build up.

The full technical elaboration of Article 6 guidance may take months or years beyond COP26. We anticipate that some elements will be agreed at COP26, as part of the Article 6 Guidance, while others, especially those requiring further technical elaboration, will need to be further detailed in a work programme established after the adoption of the Article 6 Guidance. The work program is important, and should be done in a timely manner, but it also cannot be rushed. It is essential that proper completion of the work program does not cause delays on operational continuity of projects.

Operational continuity of eligible climate projects can be preserved by establishing a roadmap with 2 phases:

1. Interim Phase foreseeing provisional rules for CDM operations that apply between January 1, 2021 and when the Article 6.4 mechanism is up and running.
2. Full Phase with normal Article 6.4 operations and consequent end of CDM activities.



The most effective roadmap to ensure operational continuity of eligible projects will be to enable projects to operate during the “interim phase” using existing or clearly modified mechanisms, and then give them notice of the new Article 6.4 rules and procedures after those have been developed in the coming 6-18 months. **By taking this two-phase approach negotiators can achieve the potential of Article 6 while supporting the climate project development sector and ensure a smooth market transition.**

It is important to note that with delays in negotiations, the immediate and urgent need is that existing CDM projects/PoAs continue to be able to issue to avoid the creation of a gap. Existing and operational CDM projects, especially those that are vulnerable require a functional conduit between pre-2020 CERs (under the Kyoto Protocol), and when the Article 6.4 apparatus is up and running (which could take as long as 2023). These projects face the risk of discontinuation if the CDM is not allowed as a gap mechanism until the Article 6 apparatus is setup.

Since setting up the full Article 6 apparatus will take months if not years, the only credible pathway is that the CDM is adopted as a market mechanism that can act as a bridge between the Kyoto issuance mechanism and the new Paris Article 6 mechanism. This means that post-2020 CERs from existing CDM projects/PoAs should be accepted as a legal instrument for compliance within Paris requirements, until the Article 6 apparatus is setup and no later than a pre-defined date (e.g. 2023 or 2025). This will ensure that the interests and investment of the private sector are safeguarded and sustained development impact flows to the most under-represented sections of society.

For the Interim Phase, it is essential for the Article 6.4 Rules Modalities and Procedures (RMP) to cover the following elements:

- CDM should be allowed to operate until the Article 6 apparatus is up and running, and no later than a pre-defined date (e.g. 2023 or 2025). The sunset clause under discussion for transitioning CDM projects to Article 6 can be used as the milestone from when CDM as a mechanism will no longer be eligible, however, until such date the CDM should be operational.
- On application of corresponding adjustment to existing CDM projects, RMPs should consider exempting the existing CDM projects from applying corresponding adjustments until the Article 6 apparatus is set up to avoid any further delay in the overall transition process and issuance of ERs. The corresponding adjustment can potentially be retroactively applied once the Article 6 apparatus is set up and rules are clear.
- RMPs should allow the use of same GHG accounting methodologies applied under CDM until full transition to Article 6.4. This applies to “Gap CERs” of vintage 2021 and up to all vintages until the “launch date” of the Article 6.4 apparatus.
- The already approved CDM issuance timelines should be used as is till the full Article 6.4 apparatus is launched.
- RMPs should prioritize transitioning the most vulnerable CDM project activity types.



During the Full Phase, it is essential for the Supervisory Body to perform the following activities as quickly as possible:

- The body should agree to its operational rules for methodology/project/program (registration, review and approval).
- The body should expedite a consolidation of methodologies from CDM & JI that are fit for purpose under Article 6.4, subject to the necessary updates.
- Depending on the outcome of the Article 6.4 negotiations, the body should establish an approval system for projects/programmes to be re-registered under 6.4 if they meet the agreed criteria.

Concluding, IETA believes that existing projects should be transitioned into the Article 6.4 framework, provided that they are in line with Article 6.4 rules and meet relevant requirements, and can act as a ‘gap-filler’ in the meantime. This is crucial to provide continuity for those projects and build critical mass for the Article 6.4 mechanism. This is also crucial to avoid creating a gap between the stop of CDM operations and the start of the Article 6.4 mechanism. Registered projects should have an ability to be requalified promptly through an expedited process, if they meet the new Article 6.4 standards and provide assurance that reductions are not being double counted.

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