



Submission by Portugal and the European Commission

On behalf of the European Union and its Member States

Subject: Clean Development Mechanism (CDM) activity transition to Article 6.4 mechanism to inform the SBSTA regarding the informal technical expert dialogues during the June session

- 2 June 2021 -

Clean Development Mechanism (CDM) activity transition to Article 6.4 mechanism

The EU and its member states would like to thank the SBSTA Chair for the encouragement to provide views ahead of the Article 6 events.

We welcome the opportunity to address provisions for the Clean Development Mechanism (CDM) activity transition to Article 6.4 mechanism. We note that version 3 of the President's draft text at COP 25, para. 72, 73 and 74 identifies a potential transition for existing project activities and offers a basis for further discussion, noting that environmental integrity is of utmost importance for the credibility of the new mechanism.

We want to stress that the Paris Agreement does not provide for a transition from the Kyoto Protocol to the Paris Agreement, nor does it create an expectation or obligation of such. Rather the Paris Agreement provides for a new mechanism to replace both the CDM and JI mechanisms of the Kyoto Protocol in the post 2020 period, and the decisions accompanying the Paris Agreement simply invited Parties to reflect on lessons learned with respect to the mechanisms of the protocol.

We have indicated that the Article 6.4 mechanism will need to be a more ambitious mechanism than the CDM, operating under new mandates, expectations and requirements.

Any transition from the Kyoto Protocol to the Paris Agreement, including a decision on the status of ongoing mitigation activities under CDM post 2020, will need a clear agreement on the core elements of more ambitious implementing rules for Article 6.4 before.

Since the beginning of Article 6 negotiations, the EU has taken the position that CDM activities can requalify for the certification of emissions reductions under the Article 6.4 mechanism subject to the new rules of the Paris Agreement, noting the new context where host parties have NDCs and accounting obligations mean that broader considerations need to be taken into account.

We regret that delays in the implementation of the new mechanism under Article 6.4 have left many countries without the support of a centralized mechanism in securing access to international markets following the end of the 2nd commitment period of the KP in December 2020.

While the CDM can continue to operate in respect of pre 2020 action up until the end of the true-up period of the KP for the second commitment period, it cannot legally register activities beyond the second commitment period, or issue units for emission reductions occurring after 31 December 2020.

We note that in the absence of further guidance from Parties to the CDM EB, the Board has been moved to provide clarification to stakeholders regarding “Regulatory requirements under temporary measures for post-2020 cases”¹. We and other parties have written to the Board to clarify our views on the legal situation².

We remain concerned that a blanket recognition under the Paris Agreement of activities operating on the basis of rules and methodologies agreed for the Kyoto Protocol presents risks to the interests of hosts, and to the overall environmental integrity of the agreement.

Over many years, we have raised concerns regarding the integrity of the CDM in the context of the review of its modalities and procedures, urging particularly consideration and protection of the ambitions of the host parties to be expressed through alternative approaches to baseline methodologies and additionality. We also continue to argue for rules that enable hosts to secure a proportion of the mitigation benefits from project investment to their own account.

If transition arrangements are to be agreed, the risks will need to be clearly understood. Provisions for transition will need to be time limited, and can only be agreed in the context of agreement to a robust and ambitious framework for the future.

In order to ensure environmental integrity, we will need to address as part of the transition:

- Clear Identification of the number, type and size of existing CDM activities that may reapply for registration under the Article 6.4;
- Conditions for requalification of existing CDM activities aiming to generate certified emission reductions under the Article 6.4;
- Prioritisation of consideration of particular classes of CDM activities, and potential exclusions of activities;
- Provision for approval of the host country and its consideration of the effects of the activities on the NDC and the LEDS and their progression, and how the benefits will be shared;
- Provision for specification of increased ambition levels for the activity by the host including specification of particularly how the activity contributes to the mitigation ambition of the host party;
- Provision for the avoidance of double counting, through the application of corresponding adjustments.

In this context we would also need to see:

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https://cdm.unfccc.int/filestorage/Z/D/6/ZD6NAPYVK4BRXCTFWJ20HUGSEM9011/eb109_repan01.pdf?t=STI8cXN3N2UwfDCKMDqCiTFT1tYG5IUP0F4b

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https://cdm.unfccc.int/filestorage/e/x/t/extfile-20200920113447599-INQ-10208-Letter_to_the_CDM_EB_by_Germany_and_the_European_Commission_on_behalf_of_the_EU_and_its_Member_States.pdf/INQ-10208-Letter%20to%20the%20CDM%20EB_by%20Germany%20and%20the%20European%20Commission%20on%20behalf%20of%20the%20EU%20and%20its%20Member%20States.pdf?t=SG98cXRiNW80fDBA_Em3XtpNyK3ZZTIPhg8

- Agreement to the rapid development of new methodologies as well as the adaptation of methodologies to the new rules, and
- the provision of support to host countries in managing new requirements, including through the transition.

In this regard we consider that the resources and infrastructure of the KP Mechanisms may be dedicated to Article 6.4 to support this effort.

We consider that an orderly transition from the CDM to Article 6.4, will require a decision of the CMP, as outlined in our submission on “Ensuring rapid operationalisation”³ A corresponding decision is needed to enable a clear transition from the KP to the PA, with the immediate appointment of the supervisory body to manage the new mechanism, provision for redeployment of staff, resources and infrastructure from the KP to support implementation of the new mechanism under the PA, and to provide consequentially for the winding up in the operations of the Clean Development Mechanism after the end of the second commitment period.

³ Link to EU Submission „Rapid Operationalization:
<https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202105101017---PT-05-10-2021%20EU%20Submission%20Rapid%20Operationalization%20A6.pdf>