

SUBMISSION BY SLOVENIA AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

Clean development mechanism transition

20 October 2021

SUBJECT: Clean development mechanism transition to inform the SBSTA regarding the informal technical expert dialogues to be held in the second semester of 2021 in preparation for COP26 in Glasgow.

Introduction

The EU and its member states would like to thank the SBSTA Chair for the encouragement to provide views on clean development mechanism (CDM) transition and recalls its submissions from 10 of May, and 02 and 16 of June 2021, regarding *Ensuring rapid operationalization (Articles 6.2, 6.4, and 6.8)*¹, *CDM activity transition to Article 6.4 mechanism*² and *Use of Kyoto Protocol units towards NDCs*³, respectively, which contains important elements that should be taken into consideration with regard to the topic of this submission.

It is disappointing that exchanges on transition have been more backward looking than forward looking, focused on the carry-over of units and the continuation of elements of the CDM, rather than on designing elements that are necessary to deliver an Article 6.4 mechanism that works in host country interests and delivers on the long term goals of the Paris Agreement. We have been invited to reflect on lessons learned from the Clean Development Mechanism, one of which must be the need to re-build confidence of both regulators and investors in the quality of offsets, now in a context that both are looking for units that will deliver net zero pathways.

In our view the topic of transition from the CDM to the Article 6.4 mechanism engages a broader range of topics than only carry-over of units, but includes also the question on the qualification of existing projects, the ambition and environmental integrity of the new mechanism, the redeployment of resources from the CDM to the Article 6.4 mechanism, clear mandates to the Article 6.4 supervisory body and to the secretariat and also a provision for capacity building support, among others.

¹ <https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202105101017---PT-05-10-2021%20EU%20Submission%20Rapid%20Operationalization%20A6.pdf>

² <https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202106021558---PT-06-02-2021%20EU%20Submission%20CDM.pdf>

³ <https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202106161529---PT-06-16-2021%20EU%20Submission%20Kyoto%20units.pdf>

Solutions to these elements are themselves part of a broader package of agreement on ambition, accounting and finance – and solutions to individual problems can only be found in the context of an ambitious agreement overall.

The latest science clearly states that more mitigation effort and more ambition is needed to deliver on long term goals of the Paris Agreement – meaning more ambition is needed to achieve them. Individual proposals that reduce ambition run counter to what science demands, and can only be considered in the context of a broader package of agreement that preserves and enhances ambition overall.

It is essential that any such agreement on transition delivers:

- A prompt start to a more ambitious Article 6.4 mechanism which replaces the KP mechanism, that addresses the long-term goals of the Paris Agreement and delivers benefits both to acquiring countries and to hosts;
- Full application of accounting and ambitious allocation approaches to the Article 6.4 mechanism, particularly by realigning baselines to avoid over crediting and encompass host country benefits.

We believe a comprehensive transition to new rules can be delivered for the most part in a decision on Article 6, but that a complementary decision by the CMP addressing transition from the CDM to the Article 6.4 mechanism in particular with regard to resources can help deliver a prompt start. Moreover, technical implementation of a transition would benefit from cooperation between the CDM EB and the A6.6 Supervisory Body, which has to be mandated by the CMP and the CMA.

Turning to specific elements:

Carry over of units

There is no provision for carry-over of KP units or project activities in the Paris Agreement, and that the Kyoto Protocol has historically reserved carry-over of project credits to Annex I Parties and limited the amount to a proportion of their initial targets (1/CMP.8, para 23/ 24). We also know that there is general prohibition on the carry-over of land related units.

The 3rd iteration of the Madrid text invites us to consider carry-over of all CDM credits, limiting use to those of a certain vintage within a period, while placing units not carried over in a reserve (para 75 and 76). We are grateful for the analysis produced by the secretariat that spells out some of the numbers involved.

Individual proposals that reduce ambition run counter to what science demands and can only be considered in the context of a broader package of agreement that preserves and enhances ambition overall.

We have not seen a proposal on vintaging from those Parties proposing carry over that does not significantly reduce ambition.

What we have heard is a range of proposals with regard to how risks to ambition might be managed and are open to explore the implications of each of them separately or in combination. These proposals include;

- Agreement of a vintage restriction to most recent project vintages of registered projects;
- Placing qualifying credits in a reserve;
- Cancellation of ineligible credits;
- Provision restricting use of credits:
 - toward uses other than NDCs;
 - towards the NDCs of the host
 - towards NDCs of other parties;
- Provision for limitations on use
- And provision for flagging and reporting on use of these units

Qualification of Projects

We have always taken the view projects registered elsewhere may requalify as Article 6.4 projects provided they are demonstrated to be in line with new Article 6.4 requirements. We recognise that the delay in agreeing and implementing rules applying to projects leave us with a gap, leaving many countries without the support of a centralized mechanism in securing access to international markets. We note that the text makes provision for qualification of registered projects using existing methodologies for the rest of their crediting period, or until 2023 whatever is the shortest, provided there is host approval.

We have heard a range of proposals that we could explore to see if they offer a solution based on these elements:

- That they deregister from the CDM;
- That this option is limited to the most recent project vintages;
- That they are within the scope of the NDC and apply the relevant accounting rules;
- That they are demonstrated to be additional or “vulnerable” projects
- That parties identify a mitigation contribution to the NDC up front;
- That projects may apply existing methodologies subject to a discount applied at the option of the host.
- That small scale of other projects are fast tracked in approval processes

Ambition of the Mechanism

We have indicated that crediting for incremental improvements on historic or business as usual emissions or removals will commit host countries to levels of crediting that will leave their NDCs difficult if impossible to meet, given emissions need to be reduced and removals to be enhanced over time. This is why we have argued for alternative and more ambitious approaches to crediting and shorter crediting periods so as to enable alignment of crediting with NDCs and Long Terms Strategies. Practically speaking we think this means that the Article 6.4 mechanism needs to reflect on host country interests unlike the CDM, ensuring for example:

- Duty on hosts to consider and report upfront to the Supervisor Body on alignment of use of mechanism with host NDC and LTS leading to net zero;
- Duty on the Supervisory Body and its support structure to ensure alignment of use of the mechanism in accordance with host party, including:
 - A provision for host country to specify include and exclude eligible project types and methodologies;
 - A provision for host to specify a contribution to host country mitigation targets (uncredited proportion of emissions);
- New methodologies should be forward looking by setting benchmarks based on the best available techniques or approaches;
 - Offering crediting for improvements on a level of emissions or removals that improves on what would otherwise be available in host countries, not with reference to what has actually been deployed in the last 5 years as under the CDM, but based on what can be deployed and is currently objectively and reasonably available, best available technologies or techniques as a benchmark
- Provision for appropriate crediting periods, and updates that enable dynamic updating in line with progression in ambition.

Prompt Start Decision

In order to enable an effective transition, there has to be a prompt start to the mechanism, one which enables both host countries and the mechanism's administration (SB, panels, secretariat, including support by the RCCs) to implement the new approach. Practically speaking this would mean:

- Confirmation that the support structure, staff and finance may be used by the Article 6.4 Mechanism to support its implementation;
- Including decisions:
 - That the CDM Registry could be used by the Article 6.4 Mechanism, until a dedicated registry may be established;

- To transfer surplus resources currently dedicated to the CDM to the prompt start of the Article 6.4 Mechanism;
- Dedication of transferred resources to support the implementation by host countries of the new approach and specifically:
 - Integration of plans for use of markets in NDCs and LTS leading to net zero;
 - Identification of eligibility and contributions to mitigation from the existing pipeline of projects;
 - Support to identification of inputs to the development and implementation of New Methodologies;
- Confirmation by Parties that the Article 6.4 Mechanism is the governing body in respect of crediting of post-2020 action and that:
 - Parties authorising a project activity under Article 6.4 needs to confirm that their approval of activities registered under CDM is limited to the 2nd Commitment Period;
 - CDM projects proposed under the Article 6.4 Mechanism, need to have been deregistered from the CDM before they can be registered under Article 6.4.

Residual matters

In securing a transition from the CDM to the Article 6.4 Mechanism, we consider that all post 2020 emissions reductions and removals will need to be supervised, approved and accounted for under the Paris Framework. We do not think parties can or should use and apply two mechanisms, with different rules, in parallel. We have previously written to the CDM Executive Board to express our view that there is no mandate to register projects or issue credits under the CDM in the absence of a third commitment period.