GGGI

SPAR6C
Supporting Preparedness for Article 6 Cooperation

INSIGHT BRIEF

GUIDANCE ON THE TRANSITION OF CDM PROJECTS TO ARTICLE 6.4 ACTIVITIES



TRANSITION CDM PROJECTS TO ARTICLE 6.4 ACTIVITIES

The clean development mechanism (CDM) finished on 31 December 2020 with the end of the second commitment of the Kyoto Protocol. For CDM project activities (PAs) and programs of activities (PoA), this means they can no longer issue certified emission reductions (CERs) even though they continue generating emission reductions beyond 2020.

To maintain continuity of international carbon markets, the CDM is to be replaced by the Article 6.4 mechanism. The conference of the Parties Serving as the Meeting of the Parties to the Kyoto Protocol (CMP) and the conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) established rules and procedures allowing the CDM executive board to continue the governance of the CDM until 31 Dec 2025 on a provisional basis and for CDM PA/PoAs to transition to the Article 6.4 mechanism

This brief explains the United Nations Framework Convention on Climate Change (UNFCCC) rules on transition eligibility criteria and procedures, and provides step-by-step guidance on the factors that interested CDM PA/PoAs-developers need to consider when deciding whether to pursue Article 6.4 transition.

1. CDM ACTIVITY TRANSITION – STIPULATIONS FROM THE ARTICLE 6 RULEBOOK AND IN PRACTICE[I,II,III,IV,V,VI,VII]

1.1 ELIGIBILITY FOR TRANSITION

To be eligible for transition to Article 6.4, a PA or PoA participant should answer the following questions:

Is the CDM PA/PoA registered?

- If the CDM PA/PoA is not registered, then it is not eligible for Article 6.4 transition
- If registered, the PA/PoA needs to comply with one of the following conditions:
  - Be registered and have an active crediting period on 1 January 2021, or
  - Be accepted by CDM Executive Board for registration or crediting period renewal on the provisional basis[1]

If the PA/PoA does not meet any of these requirements, then the activity is not eligible for transitioning to the Article 6.4 mechanism.

CMP16 in 2021[viii] decided that requests for registration, renewal of crediting period and issuance of certified emission reductions for PAs and PoAs occurring after 31 December 2020 may not be issued under the CDM; instead, such requests may be made under Article 6.4.

1 They are called interim as they are temporary measures adopted by the CDM Executive Board, pending guidance from the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP).

The CDM executive board is mandated to continue processing such requests on a provisional basis until 31 December 2025 and the final decision should be subject to the supervisory body of Article 6.4.

1.2 STEPS FOR TRANSITION

The supervisory body (SB) for the Article 6.4 mechanism approved both the standard and the procedures for CDM transition at its July 2023 meeting; they will be effective from 1 January 2024.[ix]

Step 1 – Determine the crediting period

The type of crediting period of a CDM PA/PoA should not change at and after the transition. That is, if the crediting period of the CDM PA/PoA is renewable or fixed, it must remain this type after the transition to the Article 6.4 mechanism.

End of the crediting period:
If the crediting period of the CDM PA/PoA is fixed, it shall end when the current crediting period would have ended (assuming the CDM had continued).

If the crediting period of the CDM PA/PoA is renewable, it shall end on the earliest of the following:

- When the current crediting period would have ended (assuming the CDM had continued)
- On 31 December 2025
- On the date determined under the conditions of the crediting period that may be specified by the host party[2]

Renewal of the crediting period:
If the crediting period is renewable, the remaining renewals for the CDM crediting period (before transition) shall be transferred to the Article 6.4 mechanism, unless the host party specifies that the crediting period may not be renewed.[3]

In addition, after the first renewal of the crediting period under the Article 6.4 mechanism, the duration of each subsequent crediting period shall be the same as that for any new Article 6.4 mechanism activities, subject to approval of the the supervisory body or any shorter crediting period specified by the host party.[4]

- A five-year crediting period starting from January 2021 subject to a maximum of two renewals
- A maximum of 15 years for activities involving removals

Step 2 – Re-estimate the emission reductions to be generated under the Article 6.4 mechanism where required

- The CMP requires the use of lower Global Warming Potentials to estimate the CDM projects' emissions from three kinds of greenhouse gases (GHGs):
- N_2O: from 310 to 265
- SF_6 from 23,900 to 22,800
- NF_3 from 17,200 to 16,100

In the case where the projects' methodologies are adjusted for Article 6.4, the activity participants should shift their methodologies accordingly at the end of their current crediting period or 31 December 2025, whichever is the first

Step 3 – Consider transaction costs

To transition a registered CDM PA or PoA to the Article 6.4 mechanism, the activity participants need to consider the likely higher transaction costs, including the costs to be paid to the designated operational entities (DOEs) for verification and request for issuance, the share of proceeds (SoP) to be paid to the Adaptation Fund, and the at least 2% cancellation fee for overall mitigation in global emissions (OMGE) purposes, as well higher administrative fees.

Step 4 – Submit the request for transition

- CDM PA/PoAs participants should submit a request for transition to the secretariat informing the UNFCCC through the transition portal no later than 31 December 2023
- The template of the transition request is available at the UNFCCC website
- PA/PoAs or CDM DNAs who were not notified about the portal or who require additional information should contact the secretariat at cdmregistration@unfccc.int

Steps 5 and 6 – Global stakeholder consultation and host party approval

Steps 5 and 6 are not within the domain of the PA/PoA participant, but that of the host party and the secretariat.

The global stakeholder consultation has a duration of 28 days. During this process, the UNFCCC secretariat will inform the CDM DNA and the Article 6.4 mechanism DNA in the host party of the transition requests for comments from stakeholders.

2 According to paragraph 27(b) of the RMPs
3 According to paragraph 27(b) of the RMPs
4 According to paragraph 27(b) of the RMPs

The UNFCCC secretariat will review the comments, publish relevant ones and inform the Article 6.4 SB and the host DNA.

Next, the host party DNA needs to check the request for transition against the nationally determined contribution (NDC) and the NDC inventory, as the international transactions of post-2020 Article 6.4 ERs require corresponding adjustments to the host party's GHG inventory. After this analysis the host party's Article 6.4 DNA will approve or deny the request for transition through a dedicated interface that the UNFCCC will make operational by 31 December 2025.

Step 7 – Submission of additional documentation

- If PA/PoAs participants wish to continue to use CDM methodologies, they should submit the project design document (PDD) or programs of activities design document (PoA DD) and component project activities design document (CPA DD) and other documents showing the project implementation according to the registered PDD or PoA DD and meeting the Article 6.4 registration requirements, to seek Article 6.4 transition within six months of receiving approval by the host party approval
- If PA/PoA participants decide to use new Article 6.4 methodologies, they also need to submit a validation report by a DOE

The CDM activities may continue to apply its current approved CDM methodologies until the earlier of the end of its current crediting period or 31 December 2025; after that, they must apply an Article 6.4-approved methodology.

Step 8 – Processing of transition request

- Upon receiving the additional documentation, the UNFCCC secretariat will issue a statement of the transition fee due (all fees waived for Least Developed Countries and Small Island Developing States);
- Upon receiving evidence of fee payment, the UNFCCC secretariat will conduct a completeness check (within seven days); the project proponents shall address any editorial or inconsistency issues within two days of receiving request from the UNFCCC Secretariat;
- Upon positive results of the completeness check, the Secretariat will conduct a substantive check and finish it within 21 days.
- The UNFCCC secretariat could request additional documentation from the CDM PA/PoA participant, which should address such requests within four days.
- The Secretariat will send a summary note of the transition request and its findings to the Article 6.4 supervisory body.

Steps 9 and 10 – Requesting for a review and approval decision

Within 28 days of the Secretariat sending the summary note to Article 6.4 supervisory body, the host party Article 6.4 DNA and the supervisory body member may submit a request for review for the CDM PA/PoA requesting transition. In such a case, the supervisory body decides whether to approve or reject the request for review as it is, or to approve the transition request with modifications. If no request for review is submitted, the transition request is deemed to be approved.

The secretariat will then inform the PA/PoA participants of the approval and indicate it on the UNFCCC website. The subsidiary body will carry out the transition of the activities by automatically removing them from the CDM as of the transition date. Upon approval, activities and requests are subject to all relevant requirements under the Article 6.4 mechanism at all subsequent stages, taking into account the provisions on applied methodologies.

2. RISKS RELATED TO THE TRANSITION OF PA/POAS AND ADDITIONAL OPTIONS TO THE ARTICLE 6.4 MECHANISM

2.1 RISKS OF REJECTION OF THE TRANSITION REQUEST BY THE SB

- The CDM executive board continues to process requests for CDM PA/PoA registration and inclusion of new CPAs, as well as requests for issuance based on existing CDM rules. However, the board's decisions are provisional and subject to final decisions by the Article 6.4 supervisory body. As the operationalization of the Article 6.4 will take years, such provisional decisions impose risks that could make it hard for the project to find an acquiring party or get attractive prices for the 6.4ERs to be generated through the Article 6.4 transition.

2.2 MARKET RISKS

- The Article 6.4 mechanism is still at an early development stage, so the process of getting approval for transition can take a long time.
- In addition, the existence of a large number of pre-2020 CERs that can be used to meet the first NDCs or first updated NDCs up to 2030 may flood the market, affecting the price. The fact that pre-2020 CERs do not require corresponding adjustments and this low market price might affect the attractiveness of post-2020 A6.4ERs.

3. OPTIONS FOR TRANSITION TO ARTICLE 6.4

An activity participant with CDM PA/PoAs registered under the CDM faces four options:

- **Take no action** and forgo the post-2020 emisison reductions that could be generated by their PA/PoAs during their remaining crediting period. This may mean forgoing some potential carbon revenue, but it also eliminates the various risks.
- **Seek transition to Article 6.4**, covering the various costs, while taking risk management measures (i.e., proactively analyzing the eligibility of the activities under the host party's rules and the NDC).
- **Seek transition to a bilateral approach** under Article 6.2, whose rules on GHG emission reduction quantification are subject to bilateral agreements between the host country and the procuring country.
- **Seek transition to an independent crediting mechanism:** The voluntary carbon market (VCM) crediting mechanisms have established some guidelines and requirements on the transition acceptance of registered CDM PA/PoAs. One of the advantages of VCM is that its standards and requirements are not dependent on international negotiations and are already in place. This can reduce the uncertainties that can take years before a project proponent can obtain a final decision from the SB on its transition request. In addition, some VCM crediting mechanisms are recognised for their emphasis on environmental and social benefits and can help a project proponent obtain an attractive price for carbon credits.

ABOUT THE SUPPORTING PREPAREDNESS FOR ARTICLE 6 COOPERATION PROGRAM

The Supporting Preparedness for Article 6 Cooperation (SPAR6C) program is a five-year funded by the German Federal Ministry for Economic Affairs and Climate Action (BMWK), through the German government's International Climate Initiative (IKI). The program supports stakeholders in Colombia, Pakistan, Thailand, and Zambia to become prepared to engage in carbon transactions under Article 6 of the Paris Agreement. SPAR6C provides decision support to government counterparts, capacity building for private sector and technical assistance to identify and prepare potential mitigation activities. In addition to in-country support, SPAR6C hosts a global knowledge exchange platform, the "Community of Practice for Article 6 Implementing Countries" or CoP-ASIC. The program is implemented by a consortium of experts, led by the Global Green Growth Institute (GGGI), with delivery partners Carbon Limits, GFA Consulting Group (GFA), Kommunalkredit Public Consulting (KPC) and UN Environment Programme's Copenhagen Climate Centre (UNEP-CCC).

ABOUT LEAD IMPLEMENTING PARTNER – GLOBAL GREEN GROWTH INSTITUTE (GGGI)

The Global Green Growth Institute (GGGI) does not: (i) make any warranty, either express or implied; or (ii) assumes any legal liability or responsibility for the accuracy, completeness, or any third party's use or the results of such use of any information contained herein; or (iii) represents that its use by any third party would not infringe privately owned rights. The views and opinions of the authors expressed herein do not necessarily state or reflect those of the Global Green Growth Institute.

ENDNOTES

i Conference of the Parties serving as the meeting of the Parties to the Paris Agreement, "Decision 3/CMA.3: Rules, Modalities and Procedures for the Mechanism Established by Article 6, Paragraph 4, of the Paris Agreement."

ii Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, "Decision 2/CMP.16."

iii Conference of the Parties serving as the meeting of the Parties to the Paris Agreement, "Decision 7/CMA.4."

iv CDM-EB108, "Meeting Report: CDM Executive Board 108th Meeting."

v A6.4-SB005, "Meeting Report: Fifth Meeting of the Article 6.4 Mechanism Supervisory Body."

vi A6.4-SB006, "Meeting Report: Sixth Meeting of the Article 6.4 Mechanism Supervisory Body."

vii A6.4-SB008, "Meeting Report: Eighth Meeting of the Article 6.4 Mechanism Supervisory Body."

viii Decision 2/CMP.16, Decision 2/CMP.17,

ix The rules and the procedures are as follows: CDM-EB109-A01, CDM-EB113-A01, Decision-/CMA.3.

Copyright © 2023

The Global Green Growth Institute
19F Jeongdong Building, 21-15, Jeongdong-gil
Jung-gu, Seoul, Korea 100-784

The Global Green Growth Institute (GGGI) does not: (i) make any warranty, either express or implied; or (ii) assumes any legal liability or responsibility for the accuracy, completeness, or any third party's use or the results of such use of any information contained herein; or (iii) represents that its use by any third party would not infringe privately owned rights. The views and opinions of the authors expressed herein do not necessarily state or reflect those of the Global Green Growth Institute.

GGGI Technical Brief
Guidance on the transition of CDM projects to Article 6.4 activities

Authors
Xianli Zhu, UNEP CCC
Laura Cruz, Carbon Limits

Design & layout
James McGregor

Photo credits
Cover: © GGGI Colombia

www.spar6c.org

CARBON LIMITS · KOMMUNAL KREDIT PUBLIC CONSULTING · GFA CONSULTING GROUP · UN environment programme · copenhagen climate centre

Supported by: Federal Ministry for Economic Affairs and Climate Action · IKI INTERNATIONAL CLIMATE INITIATIVE