

CDM TRANSITION INTO ARTICLE 6 OF THE PARIS AGREEMENT | Recommendations for international negotiators

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➤ COP 25 has the mission to develop a definite guidance for the Article 6 mechanisms under the Paris Agreement (PA). This needs to address the issue of **transition from the Kyoto mechanisms** (Clean Development Mechanism and Joint Implementation) **to the Article 6.4 mechanism**.

Parties have to provide clear criteria and simple procedures for the transition with the aim to encourage CDM activity developers to continue their mitigation efforts under the CDM and generate sufficient **trust for the private sector** to invest in new mitigation projects under Article 6.

Given that it will take **several years until the Article 6.4 mechanism is fully operational**, due to the need to establish the oversight structure and detailed regulation, **CDM transition can become a bridge to fill the resulting gap**. This valuable time to mobilize mitigation should not be lost.

CDM transition can become a bridge to fill the gap until the Article 6.4 mechanism is fully operational and to preserve trust of private sector.

The key issue to resolve in the transition is **how to avoid that the Article 6 market will be bogged down by a multi-billion CER surplus accumulated in the past**, while at the same time preventing arbitrary expropriation of CDM activity developers and thus **preserving trust of private sector**. Moreover, the wealth of experience generated in a very large number of countries building the CDM infrastructure must be considered: allowing the **transition of CDM activities would contribute to ensuring that the competencies generated over the past years are retained**. This also refers to the capacities developed by third party auditors and to the private sector that familiarized itself with the CDM procedures and requirements.

The ideal solution would be a joint declaration of key countries to acquire the accumulated CER surplus at a fixed price, and thereby allow full transition of all CDM activities and CERs.

If this solution cannot be achieved, **cut-off criteria for CER vintage and/or CDM activities need to be applied** in the most objective way.

CER vintage cut-off dates could be agreed upon if the aim is to limit the volume of CER surplus. One possible date could be 31st December 2012 (end of the first commitment period under the KP and full emergence of the CDM market crisis), which would however only partially limit the volume of eligible CERs. Alternatively, the 4th November 2016 (entry into force of the PA) could be selected. The most stringent vintage cut-off would be the 31st December 2020, the starting point of the NDC implementation period under the PA. CERs satisfying the cut-off dates should be directly eligible under Article 6.4, at least for the first NDC period until 2030.

If the resulting reduction of CER volume is still seen as insufficient, activity-specific cut-off dates could be applied. As a minimum, those investments made after the CDM market crisis (i.e. after 2012) and those made in absence of real certainty on a new climate regime as well as the lack of an operational market mechanism beyond CDM that can drive private investments (i.e. from 2016), should be rewarded. Negotiators should therefore discuss potential cut-off dates for registration of activities. The potential dates would be the same as discussed above for the CER vintage cut-off. For programmes of activities (PoAs), the date of individual Component Project Activity (CPA) inclusion should be applied for the cut-off in order to respect the design of PoAs as a framework for many distinct sub-activities and to create an opportunity for investors to implement new CPAs.

Secondly, **the administrative procedure of transition needs to be as efficient as**

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possible. In the case when reissuance of the host country's Letter of Approval is seen as necessary by the international regulations under Article 6.4, the procedure regarding the reissuance needs to be clearly defined. If a re-registration by the Art. 6.4 supervisory body is deemed necessary, an expedited procedure without a new validation by a Designated Operational Entity accredited under Art. 6.4 would be preferable. **Simplified procedures should be applied to activities in least developed countries (LDCs) and small island developing states (SIDS)**. Activities in these states should continue to be exempt from the Share of Proceeds for adaptation and an eventual discount of credits for Overall Mitigation in Global Emissions (OMGE). They should also be **eligible if taking place in sectors not covered by the host country's NDC**.

Cut-off criteria for CDM activities could be agreed upon to limit the volume of CERs eligible under the Article 6 market.

LDCs and SIDS **negotiators should identify allies to support the CDM transition**. Allowing the CDM transition will **support both domestic and foreign investors and mobilize the resources necessary in these countries to drive mitigation**. ●