

Strengthening the Article 6.4 pipeline

STATE OF PLAY AND STAKEHOLDER PERSPECTIVES

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Getting ready for issuances and new projects

The Article 6.4 mechanism, now called the Paris Agreement Crediting Mechanism (PACM), has faced delays and uncertainties over its nearly 8-year implementation process. Despite these delays, the PACM can already be considered as partly operational. Although it is commonly believed that the first issuances of Article 6.4 emission reduction units (A6.4ERs) are still far off, these issuances are within arm's reach.

CDM transition issuances

The CDM transition is well on the way and the first Article 6.4 issuances are highly likely to originate from transitioning projects.

Box 1: CDM transition highlights

CDM transition highlights

- As of 14 October 2024, 10 countries have submitted the [Host Party participation requirement form](#): Benin, Bhutan, the Dominican Republic, Ghana, India, Mali, Morocco, Myanmar, Togo, and Uganda.
- As of 14 October 2024, the first [host country approvals for transition](#) have been received from Bhutan, the Dominican Republic, Ghana, and Myanmar.
- 1796 activities requested transition, 1471 have undergone or completed the Global Stakeholder Consultations (GSC) (as of May 2024).

There are still steps that need to be taken towards full operationalization of the PACM, including, most notably, the preparation of methodological products (guidance on methodologies and removals, development of multiple standards, tools and concept notes, revision of CDM methodologies, the development of new methodologies for the mechanism, etc.), and the development of the

full mechanism registry. The SBM and the Methodological Expert Panel (MEP) are working on the methodological products, and the focus of 2025 will be on progressing in that work. At the same time, the way forward and the timeline to full operationalization will also depend on progress made at COP29. The planned timeline for the implementation of the full mechanism registry is mid-2025. However, to reach the milestone of the first A6.4ER issuances from transitioning activities, the next steps required from various stakeholders in the process are simpler to complete and put the potential issuance of the first A6.4ERs to the beginning of 2025.

Table 1: Next steps towards issuance from transitioning projects

Project participants	Completing the sustainable development (SD) assessment according to the new SD tool , adopted by the SBM at its 14 th meeting.
UNFCCC secretariat	Operationalizing the interim registry
Host countries	Clearing the host country participation requirements and submitting approvals for transition
SBM	Approving A6.4ER issuances

New projects under the PACM

As of July 2024, the UNFCCC secretariat had published on its website 198 [prior consideration notifications](#), which indicate project participants' intention to register a new project under the PACM. Note that, as of 14 October 2024, the number of published prior notifications stands at 622. The following analysis is based on available data by July 2024.

From the initially published 198 projects, a clear majority of 123 projects come from India, followed by Chile (17), Vietnam (8), Brazil (7), and Bhutan (6) in the top 5 countries. Figures 1 and 2 show the country distribution of prior notifications.

Figure 1: Map of prior consideration notifications

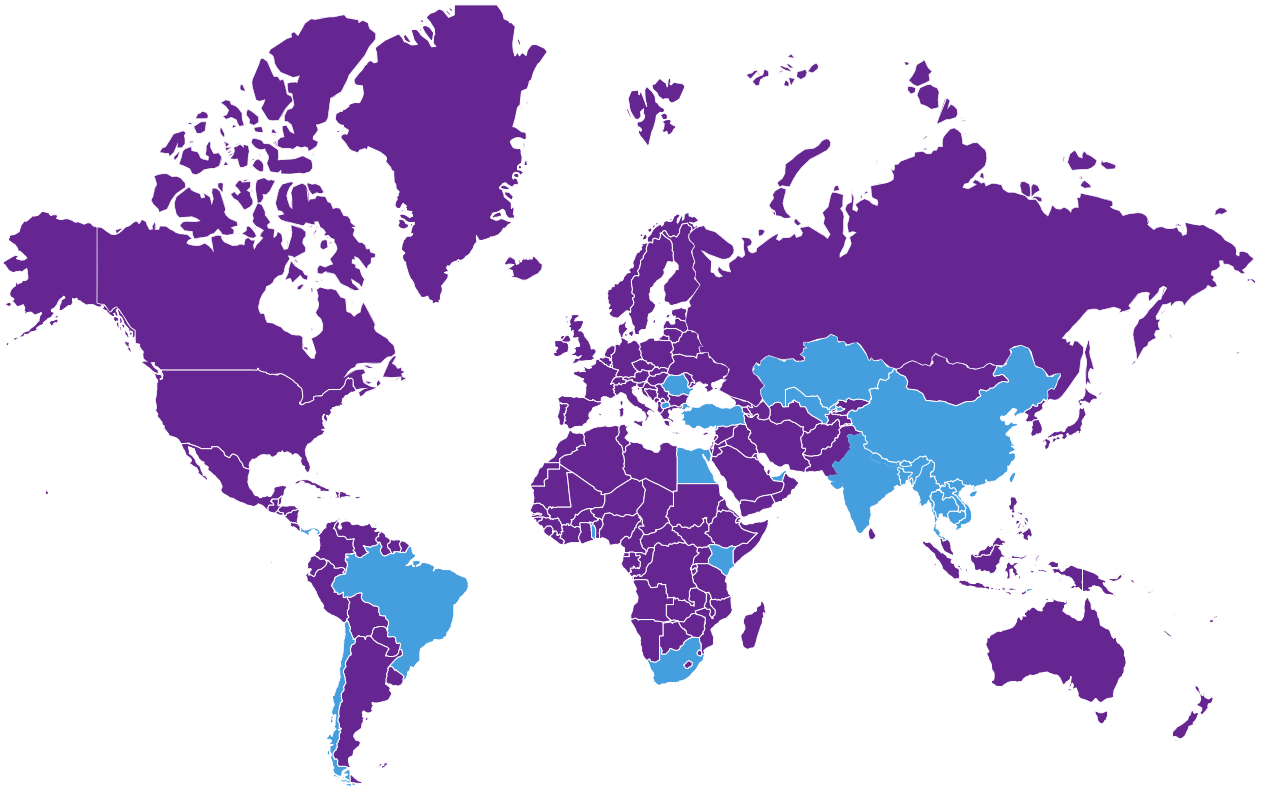
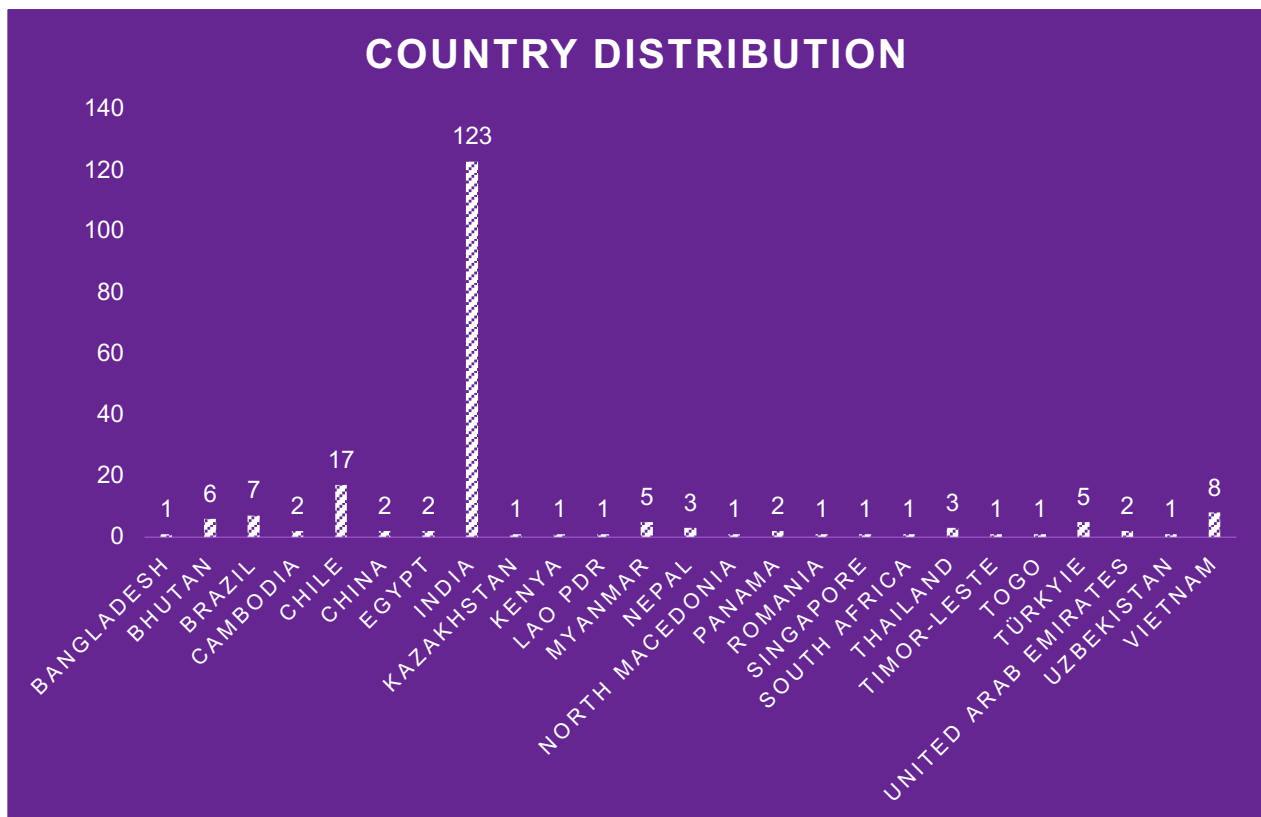


Figure 2: Country distribution of prior consideration notifications



In terms of sectors, the focus of projects varies. See Figure 3 for an overview. Energy sector projects come out as the clear focus in the pipeline of new projects so far (159), followed by clean cooking (16), transport (6) and waste (4).

Zooming in on energy sector projects shows a large majority of solar power related projects (90) and a clear focus on renewable energy. See Figure 4 for a breakdown of energy related projects.

Figure 3: Sectoral overview

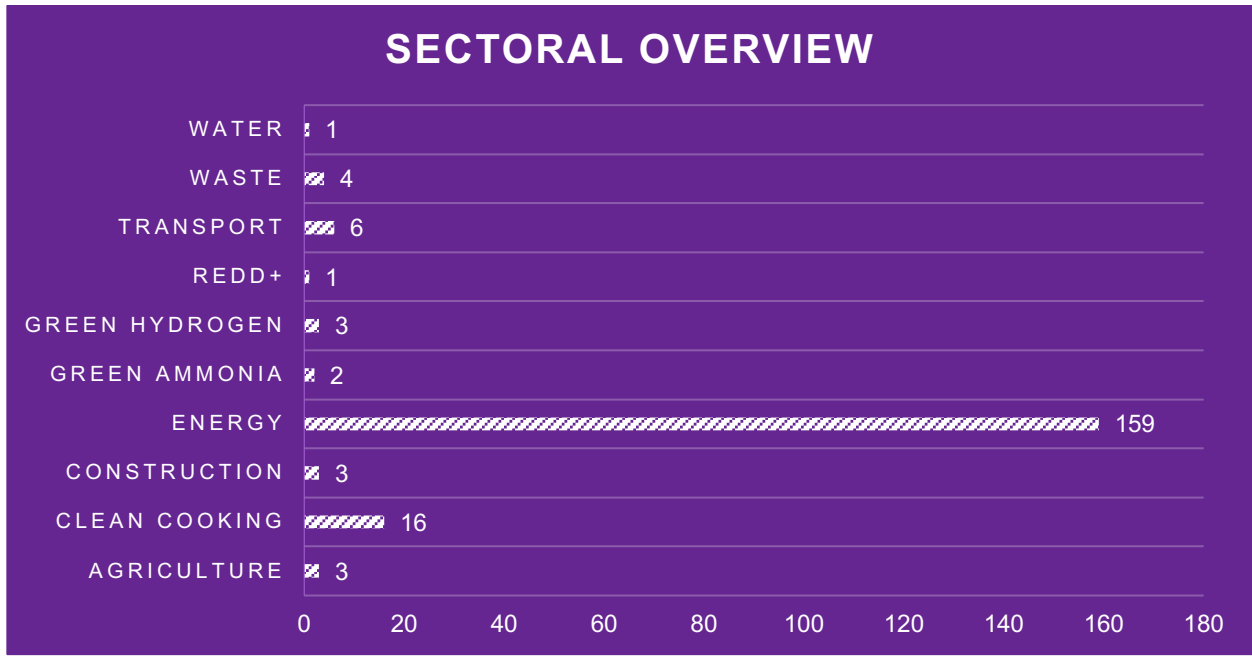
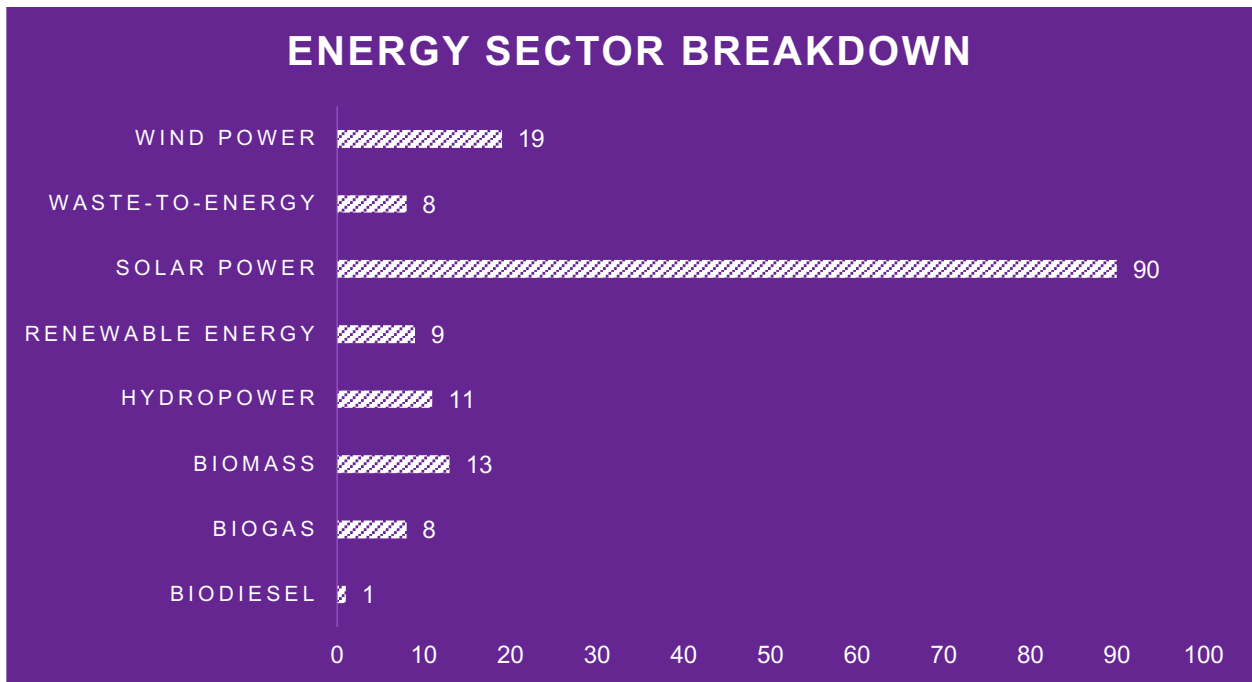


Figure 4: Energy sector breakdown



Project participants can push the Article 6.4 project pipeline forward by creating methodologies for SBM approval. However, as the Article 6.4 policy environment is still under development, developing or updating methodologies carries significant risk most project participants are unwilling to take on. The SBM at its 14th meeting adopted a standard on methodologies, which will form the basis for further work.



For a more detailed analysis, read our [recent article](#) on “Closing the Article 6.4 Gaps” in Carbon Mechanisms Review.

Stakeholder perspectives: Expectations, opportunities, and roadblocks

We consulted representatives from host countries, project developers, the SBM, the UNFCCC secretariat, and buyers on their perspectives on the PACM and the developing project pipeline. We present the results of these discussions here.

The consultations were based on the following questions:

1 What are different stakeholders' expectations for the PACM? What makes this mechanism unique, and what are its 'selling points'?

2 What are essential problems to address?

- Host countries: What are the main needs and roadblocks in using the PACM?
- Project developers: What are the key risks and difficulties in registering projects?
- SBM: What can the SBM do to facilitate the PACM project pipeline?

Expectations and opportunities

Several stakeholders stated that the PACM has the potential of addressing the weaknesses of international carbon markets. The reputation of carbon markets has taken a hit in recent years. Additionally, with the CDM reaching its end and the PACM not yet fully operational, stakeholders perceive the market as missing **a center that can provide steering and overarching guidance**. A centralized mechanism with the reputational weight that the UN still carries may strengthen carbon markets by providing a clear and stable mechanism with internationally accepted rules.

At the same time, some emphasized a differentiation between projects transitioning from the CDM and potential new projects under the PACM. They argued that, due to the CDM's reputation, transitioning projects and the resulting A6.4ERs may still be considered as low quality in the market, inspiring lower demand and lower prices for these credits.

As a unique selling point of the PACM, stakeholders emphasized its relative openness. **The PACM opens the playing field** and has the potential of involving a wide range of actors under one umbrella.

Stakeholders also emphasized that the possibility of **generating mitigation outcomes to be authorized for Other International Mitigation Purposes (OIMP)** under Article 6.4 is another attractive feature of the PACM.

Roadblocks

Cross-cutting need for clarity

Stakeholders from host countries, project developers and buyers all emphasized the need for **predictability, consistency, and clarity on PACM guidance, standards and procedures**. Uncertainties are introduced by the lack of approved new or updated methodologies and the different methodological standards and tools. Although the adoption of the standards for methodologies and removals at the 14th meeting of the SBM has been met with cautious optimism, stakeholders are looking to COP29 and whether the SBM's work will be endorsed by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA).

The development of new methodologies in a bottom-up manner is considered a challenge which may deter smaller project developers from engaging with the PACM, leaving it accessible to large-scale developers and investors.

Stakeholders also emphasized the need for further guidance on authorizations and corresponding adjustments, which they perceive as a potential major bottleneck.

Host country participation

For host countries, one of the main bottlenecks in the process is **fulfilling host country participation requirements**. The assessment of how a host country's participation contributes to sustainable development is a new requirement under the PACM, and navigating the assessment without prior experience is challenging. The UNFCCC secretariat is working with host countries to clear this hurdle, and in effect, there is a backlog of A6.4ER supply. Buyers, however, expressed a demand for A6.4ERs but perceived the PACM as still missing a pipeline of new projects – that, in their view, demand is there but supply is missing.

In terms of the development of **methodologies** for new projects, host countries may prefer to stay with the known CDM methodologies and revise them to fit the PACM standards instead of investing resources into creating new methodologies from scratch.

Another challenge for host countries involves their **domestic readiness for Article 6.4 participation**. Challenges include establishing a legal basis for participation in Article 6.4 as well as developing the details of their institutional, regulatory and technical frameworks. Host countries are particularly indicating a need for

further guidance on authorizations and corresponding adjustments. Host countries are facing a unique challenge in operationalizing their participation in the PACM in terms of needing to **think globally but act locally in accordance with their unique national circumstances**. The market requires certainty and consistency, but the adoption and operationalization of new international rules into national contexts takes time and will not be uniform across jurisdictions.

Registry development

Stakeholders expressed the need to fully operationalize the **interim mechanism registry**, recognizing it as a critical step in building confidence in the PACM.

Input from the UNFCCC secretariat indicated substantial progress in implementing the interim registry, which is designed as an offline system for issuing and tracking A6.4ERs. The procurement process for the full mechanism registry is underway, with its implementation expected in the first half of 2025. The aim is to implement a **fully transactional registry** where a broad range of actors can create accounts and trade – i.e., not only for project participants but also, for instance, financial institutions. Some questions remain on the interoperability of the mechanism registry as well as their interoperability with other registries, which need to be clarified at COP29 in Baku.

Ongoing work on enabling the 6.4 project pipeline

The SBM is progressing both on the CDM transition and on developing guidance and standards for new PACM projects. The standards and procedures required for the CDM transition are complete, and the SBM can register transitioning projects under the PACM. Transitioning projects may also progress with their SD assessments, owing to the recent adoption of the new SD tool at the SBM's 14th meeting.

The SBM is continuing to develop methodological recommendations and is preparing to present its work on both the recommendation on methodologies and removals at COP29 in Baku. There is close collaboration with the MEP, which is working on updating CDM methodologies for use under the

PACM and draft methodological standards and tools in parallel.



The bottom line

The clearest point of agreement among stakeholders is the need to resolve outstanding issues at COP29 in Baku to preserve the integrity and reputation of carbon markets.

The first issuances from the PACM will signal the mechanism's readiness and will increase confidence in its full operationalization. The success of the mechanism, however, will depend on collaboration between stakeholders in both bottom-up and top-down processes.