

A6.4 SB MEETING REPORT

A6.4 SB-002, 19-22 Sept. 2022



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Report

Article 6.4 Mechanism Supervisory Body Second Meeting

19 to 22 September 2022

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Summary

- The Supervisory Body members agreed on a **fee structure** for processing Art. 6.4 activities: the **registration fee** is tied to annual average emissions reductions, while the **issuance fee** is set a \$0.20 per A6.4 ER. Regarding **adaptation**, the Body decided that **3% of the issuance fee** paid for each request for issuance shall be deducted and transferred to the Adaptation Fund.
- On **methodology development**, Body members discussed different **ambition raising options**, and the merits of working with a baseline contraction curve. Other suggestions for encouraging ambition over time included facilitating transformative mitigation activities, and using a mix of different elements known from the CDM, to be included in the methodologies themselves. The discussion is still at an early stage and a small group will conduct **intersessional work** in order to facilitate coming to a decision at the next meeting. A call for public input is to support these activities.
- Regarding **removal activities**, the discussed touched many elements of the draft recommendation prepared by a small spin-off group ahead of the meeting, yet consensus is still a long way to go. Contentious issues remain with regard to the actual **definition of removal activities**, and **key methodological challenges**, such as baseline setting, quantification, uncertainty, addressing the risk of reversal, as well as avoidance of negative environmental and social impacts. Some progress could be seen regarding options for the definition of removals, monitoring and reporting requirements, activity boundaries for accounting purposes, and a proposal for crediting periods, addressing reversals and leakage, as well as two “do no harm” paragraphs. The informal group will continue to consult before the next SB meeting, and a call for public Input will be launched here as well.
- Body members agreed at setting up a support structure and **TOR for experts**. Experts will be paid for their services, and the required expertise does not only cover CDM, but also voluntary markets and climate finance. Selection will take into account a regional balance according to UN definitions, as well as a fair gender balance. A call for experts will be launched later this year.
- On the capacity building work mandated by the CMA, the secretariat presented a detailed outline of the planned activities. They include
 - **Art. 6 readiness** measures, such as workshops, guidelines, videos as well as courses for master’s students
 - An Art. 6 **capacity building library**
 - Guidance for setting up **institutional arrangements**, i.e. national governance and practical procedures for decision-making and technical steering
 - Support for activity **registration processes, registry functionalities, transparency**, and corresponding adjustments
 - Targeted support for DNAs for the voluntary assessment and reporting of **sustainable development benefits**.

- Additional capacity building for the **private sector, including financial institutions** through standardized and tailored training courses as well as templates for PINs etc as well as for **auditors**
- Further products include South-South dialogues focusing on lessons learned through piloting activities of early movers, a marketplace / bazaar, and awareness raising activities on the opportunities for and benefits of engaging in carbon market mechanisms.
- The Body will hold its third meeting from 03 to 05 November 2022 in Sharm-el-Sheik, Egypt, back-to-back with the UNFCCC negotiations.

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Governance and Management

The Supervisory Body discussed, among other things, its **workplan** 2022-2023. In the discussion, members emphasized the need for reserving sufficient time for conceptual work on methodologies, and adapted the plan accordingly. Also upon request of members, two activities targeting LDCs and SIDS were revised and concrete information regarding the products was included (encouraging participation of small and micro businesses, as well as requirements tailored for LDCs and SIDS, as per CMA request). Regarding capacity building, additional reporting in the year 2023 was added. The final plan¹ foresees five meetings of the Body in 2023 while also taking into account possible new mandates from the CMA session in November.

The Body also considered a concept note on **“Support structure and draft TORs”**. Based on input from the first SB session, the secretariat presented ways and options to establish a roster of external experts to advise the Body on both accreditation and methodology issues. The Body members discussed, among others, on the timing of setting up the roster, remuneration, the role of CDM experience, and whether to apply a regional and gender balanced selection. In the end, the Body opted for starting the process now instead of taking more time to thoroughly define the mandates for the experts. Experts will be paid for their services, and the required expertise does not only cover CDM, but also voluntary markets and climate finance. Selection will take into account a regional balance according to UN

definitions, as well as a fair gender balance. A call for experts will be launched later this year.

Furthermore, the Body **approved its annual report to the CMA** and adopted slightly revised “Draft Rules of Procedure of the Supervisory Body”², including a more precise text on the oath of service. The draft Rules of Procedure will be forwarded to CMA4 for approval. The annual report will be published on the UNFCCC website after inserting the results of this meeting and a final editing process.

¹ The workplan is available at <https://unfccc.int/sites/default/files/resource/a64-sb002-a02.pdf>

² Download at <https://unfccc.int/sites/default/files/resource/a64-sb002-a01.pdf>

Rules, Modalities and Procedures for the Mechanism

Share of proceeds

The Body continued its discussion on levies to cover expenses and to contribute to adaptation funding. At SB 001, Body members had agreed on the following principles regarding **the share of proceeds for administrative expenses**:

- The registration fee will be consumed as a fixed fee
- The issuance fee will be proportional to the amount of A6.4 ERs
- Like in the CDM, no fees will be charged for activities in LDCs and SIDS
- The fees will be charged for renewal, post-registration change as well as inclusion of a component activity for PoAs
- The fees are to be paid upon submission of the request, while some flexibility will be granted

Based on comparative data and estimates of administrative costs, experience under the CDM as well as the calculations of potential amount of funds that could be raised, the secretariat had developed a proposal for setting appropriate levels of different fees specified above.

Based on this analysis, the Body decided to recommend to the CMA the following fee structure and levels:

- The registration fee is tied to annual average emissions reductions and is set at
 - USD 2,000 for up to 15,000 tCO₂e,

- USD 6,000 for 15,001-50,000 tCO₂e, and
- USD 12,000 above 50,000 tCO₂e
- The issuance fee is set at USD 0.20 per A6.4ER
- The renewal fee is at the same level as the registration fee
- The post-registration fee is at USD 2,000 per request

Regarding **adaptation**, the Body decided that 3% of the issuance fee paid for each request for issuance shall be deducted and transferred to the Adaptation Fund.

Removal activities

At SB 001, Body members had considered a first overview of potential removal activities and key methodological challenges, such as baseline setting, quantification, uncertainty, addressing the risk of reversal, as well as avoidance of negative environmental and social impacts. An initial discussion revealed a considerable diversity of views regarding fundamental issues, with members stressing that for certain technologies the scientific basis and knowledge is too thin to consider them, while others pointed out that environmental integrity would be secured by the provisions of the Glasgow decisions anyhow. An informal working group was set up to prepare future deliberations.

Prior to the current meeting, draft recommendations³ as well as an information note⁴ were developed by the informal group and the

³ The draft recommendations on removals can be downloaded at <https://unfccc.int/sites/default/files/resource/a64-sb002-aa-a05.pdf>

⁴ The removals information note can be assessed at <https://unfccc.int/sites/default/files/resource/a64-sb002-aa-a06.pdf>

secretariat, respectively. The draft recommendations comprise a set of requirements on the elements of the initial overview, such as definitions, provisions for monitoring and reporting, accounting, etc. (see above). This catalogue is complemented by a set of additional requirements to be met by land-based removal activities.

At SB 002, members discussed various elements of the draft recommendations at length, such as leakage and how to address risks in this context, reversals, as well as specific controversial issues including tonne-year accounting. The debate on how to define the term “removal” also endured. One member criticized the labeling of this work as “methodological”, whereas he felt that the CMA mandate was broader and covered removals as an A6.4 activity as a whole. It was also noted that the implications of several options and items were not studied enough as of yet.

The body noted interim results of the discussion in an in-meeting working document⁵, which contains different options for the definition of removals, monitoring and reporting requirements, activity boundaries for accounting purposes, and a proposal for crediting periods, addressing reversals and leakage, as well as two “do no harm” paragraphs. The informal group will continue to consult before the next SB meeting, and a Call for Public Input will be launched on the three documents mentioned above, with a view to seek further inputs from stakeholders. SB 003 is finalize high level recommendations to the oncoming CMA 4 meeting in Sharm-el-Sheik in November.

Methodologies

At its first meeting, Body members had discussed, among others, whether existing CDM methodologies should be applied with

modifications, specificities of greenfield and retrofit project activities, and whether and how to consider benchmarking by industry associations and country-driven determination of BAT. Regarding encouraging ambition over time, members had focussed on whether the issue should be addressed case-by-case or whether generic guidance should be developed.

As for the removals discussion, draft recommendations⁶ as well as an information note⁷ had been developed by the informal group on methodologies and the secretariat, respectively, prior to the meeting. Regarding ambition raising, it contains the options, (i) setting a cap on baseline emissions, (ii) facilitating transformative mitigation activities, (iii) a mix of different elements, to be included in the methodologies themselves, p.ex. increasing the stringency of baselines during each renewal of the crediting period.

Body members at SB 002 discussed especially option (i) and the concept of a baseline contraction curve that the proposal includes. While some members felt it reflected the requirements of the Paris Agreement’s long-term goal appropriately, others feared that there might not be enough data available in many host countries for the calculations needed for the proposal. Again others suggested relying on option (iii) was the easiest and most pragmatic way forward, as it drew on approaches that were tried and tested in the CDM world.

On baselines, body members discussed at length the interlinkages between paragraph 33 of Decision 3/CMA.3 (general guidance for methodologies), and paragraph 36 (list of baseline approaches). Some members were in favour to focus on developing guidance to operationalize the concepts and elements of paragraph 33

⁵ Access the removals in-session document at <https://unfccc.int/sites/default/files/resource/a64-sb002-aa-a05-22092022.pdf>

⁶ The draft recommendations on methodologies can be downloaded at <https://unfccc.int/sites/default/files/resource/a64-sb002-aa-a07.pdf>

⁷ The meth information note can be assessed at <https://unfccc.int/sites/default/files/resource/a64-sb002-aa-a08.pdf>

(such as “real”, “transparent”, “conservative”, and “credible”), while others preferred to get into the details of different baseline approaches, which were laid out in detail in the input paper for the meeting.

Further concepts discussed at the meeting include encouraging broad participation, avoiding leakage, suppressed demand, sharing mitigation outcomes equitably, and aligning with the long-term temperature goals of the Paris Agreement. The discussion in these areas was shorter, comments ranged from needing for clearer definitions for leakage, to encouraging the secretariat to combine different options rather than separating them sharply in certain areas.

The Body decided that the informal group on methodologies will continue to work prior to the next SB meeting in order to prepare revised recommendations, with the aim to finalize deliberations at the SB meeting, so that recommendations can be forwarded to the CMA. In addition, a call for public input will be launched for the methodologies debate as well.

Other matters

Capacity building

The Supervisory Body discussed elements of its communications plan and heard a presentation on the **capacity building work** mandated by the CMA. According to the CMA decision, the programme is to focus on establishing institutional frameworks as well as designing and setting baselines. USD 10 million will be transferred from the trust fund for the CDM for this work. Based on a structured capacity needs assessment, the secretariat suggested a range of capacity building activities:

- **Art. 6 readiness** measures, such as workshops, guidelines, videos as well as courses for master's students
- An Art. 6 **capacity building library**
- Guidance for setting up **institutional arrangements**, i.e. national governance and practical procedures for decision-making and technical steering
- Support for activity **registration processes, registry functionalities, transparency**, and corresponding adjustments
- Targeted support for DNAs for the voluntary assessment and reporting of **sustainable development benefits**.
- Additional capacity building for the **private sector, including financial institutions** through standardized and tailored training courses as well as templates for PINs etc as well as for **auditors**

Further products include South-South dialogues focusing on lessons learned through piloting activities of early movers, a marketplace / bazaar, and awareness raising activities on the opportunities for and benefits of engaging in carbon market mechanisms.

Body members suggested that the activities be cross-coordinated with other initiatives inside and outside UNFCCC, as well as aligned with another capacity building mandate by the CMP on CDM transition. It was underlined that activities need to be tailored to the respective target level, be it local, national, regional or the global level.

Next meeting

The Body will hold its third meeting from 03 to 05 November 2022 in Sharm-el-Sheik, Egypt, back-to-back with the UNFCCC negotiations.

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