

A6.4 SB MEETING REPORT

A6.4 SB-004, 07-10 March 2023



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Report

Article 6.4 Mechanism Supervisory Body Fourth Meeting

07 to 10 March 2023

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Summary

- At its first meeting in 2023, the Supervisory Body elected Ms. Olga Gassan-zade of Ukraine as Chair and Mr. El Hadji Mbaye Diagne of Senegal as Vice-Chair for the year 2023.
- The composition of the Body remains mainly unchanged compared to the previous year. New to the Board is Daegyun Oh from Rep. of Korea, who also served as a member of the CDM Executive Board in the past.
- Over the meeting, Body members discussed mainly procedural topics such as the work plan, and how to structure the discussions on methodological principles and on removals.
- The Body members took the decision to make the assessment of sustainable development benefits mandatory as an integral part of the mechanism's project cycle. According to the CMA mandate, an SD tool will be developed that allows to take into account specific SD objectives of each host Party, which are national prerogatives and that applies positive and negative SD impacts using quantitative and/or qualitative indicators.
- A lot of technical work was spent on designing the regulatory framework for processing and approving projects / activities. Regarding the procedure for developing methodologies, for example, decided to consider all new methodologies, tools, and SBL on a case-by-case basis at SB meetings rather than introducing fast-tracking decision making as suggested by the Secretariat, which would have meant that a two SB member-committee develops recommendations to the SB, which would decide upon the cases via electronic voting.
- Regarding the project cycle, the Body requested the Secretariat to begin drafting regulatory guidance for projects and PoAs, and to design two separate sets of regulatory documents, based on the CDM framework. It noted that other types of activities such as policy, jurisdictional or sectoral programmes a per the Art. 6.4 RMPs will also begin to come in, but that these will be considered on a case-by-case basis.
- On accrediting DOEs, the Body members asked the Secretariat to revise its proposals for an accreditation framework, with updates on additional competence requirements for the assessment of Sustainable Development aspects, a deepened analysis on the concept of liabilities from ISO 17029, as well as a comparison of pros and cons regarding the suggested amendments to the CDM accreditation framework, including a view on other GHG validation and verification schemes. Inputs from the DOE coordination forum shall be sought.
- On CDM transition, the most urgent step is to develop a procedure and forms for requesting transition, which is due by June 2023. Apart from that, the Body tasked the Secretariat with developing a draft transitioning standard based on the concept note and the discussion for consideration at the next meeting. Controversial outstanding issues include the validity period of currently applied CDM methodologies and the remaining length and renewability of the PoA period and the crediting periods of transitioning PoAs including their component activities. How to sequence checking the participation requirements and host Party approval is also unresolved.

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Governance and Management

Membership issues

The Article 6.4 Mechanism Supervisory Body met for the fourth time from 07-10 March 2023.

The composition of the Body for 2023 is as follows:

- Mr. Benedict Chia, Singapore
- Mr. Felipe De León Denegri, Costa Rica
- Mr. El Hadji Mbaye Diagne, Senegal
- Mr. Piotr Dombrowicki, Poland
- Ms. Olga Gassan-zade, Ukraine
- Mr. Charles Hamilton, Bahamas
- Mr. Martin Hession, Ireland
- Mr. Gebru Jember, Ethiopia
- Mr. Duan Maosheng, China
- Mr. Daegyun Oh, South Korea
- Ms. Molly Peters-Stanley, US
- Mr. Mkhuthazi Steleki, South Africa

Alternate members are

- Ms. Kristin Qui, Trinidad and Tobago
- Mr. Eduardo Calvo, Peru
- Mr. Tirivanhu Muhwati, Zimbabwe
- Mr. Imre Bányász, Estonia
- Ms. Maia Tskhvaradze, Georgia
- Mr. Derrick Oderson, Barbados
- Ms. Emily Mathias, New Zealand
- Mr. Manjeet Dhakal, Nepal

- Ms. Maria Al-Jishi, Saudi Arabia
- Mr. Kazuhisa Koakutsu, Japan
- Mr. Simon Fellermeier, Switzerland
- Mr. Alick Muvundika, Zambia

The Supervisory Body elected Ms. Olga Gassan-zade as Chair and Mr. El Hadji Mbaye Diagne as Vice-Chair for the year 2023.

Guidance by the CMA

Workplan 2023

The Body adopted the workplan for 2023, which contains a total of 73 products to be developed this year, mirroring the sheer number of assignments the Body has to deal with in this phase. The figure below shows the sequencing of regulations to be developed for the implementation of the Article 6.4 mechanism. Details regarding the different assignments will be taken up in the

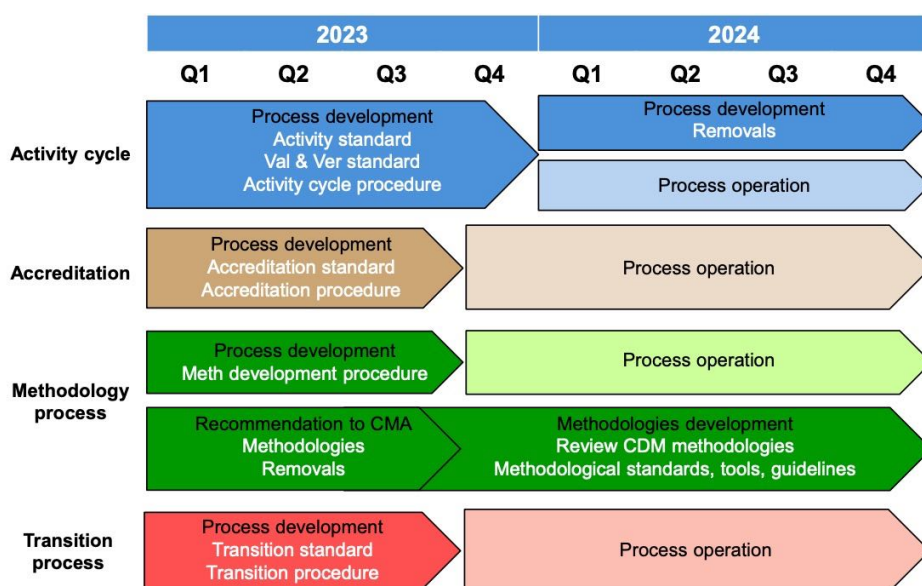


Figure 1: Sequencing of regulatory work in 2023

respective sections in this report. The meetings schedule of the Body in 2023 looks as follows:

- SB 005: 31 May to 03 June
- SB 006: 10 to 13 July
- SB 007: 11 to 14 September
- SB 008: 30 October to 02 November

LDCs and SIDS

The CMA has tasked the Supervisory Body to recognize the special circumstances of LDCs and SIDS where the rules, modalities and procedures for the Article 6.4 mechanism (RMPs) relate to nationally determined contributions. The Secretariat presented suggestions how to operationalize the instructions by the CMA.

The Secretariat presented two aspects which are specifically mentioned in the RMPs:

1. Simplified approaches for additionality demonstration
2. A waiver for the administrative share of proceeds

These should be dealt with when designing the Activity Cycle Procedure (SOP waiver) and the procedures for determining additionality, respectively, the Secretariat suggested.

Apart from these two detailed provisions, there is a broader issue affecting the participation of LDCs and SIDS in the Article 6.4 mechanism, which relates to the detailedness and granularity of NDCs, which might prohibit some Parties from performing corresponding adjustments. The Secretariat suggested to address this issue via enhanced capacity building, interconnecting the transparency and inventory capacity building with the Art. 6 capacity building work.

Body members stressed the importance of supporting LDCs and SIDS and pointed to the unequal regional distribution of the CDM projects. They underlined that the mandate of the CMA is an active one, and that specific action is required

on top of the two aspects mentioned by the Secretariat.

Therefore, Members asked the Secretariat to enhance, as a first step, the existing concept note and to carry out analysis on the performance of the CDM and others mechanisms in this regard, p. ex. regarding share of projects located in LDCs, volume of emissions reductions, but also on simplified additionality and the achievements of the RCCs. Based on this analysis, the Body is going to discuss further measures, especially with regard to the participation issue.

Small and micro businesses in Art. 6.4

CMA4 requested the SB to consider ways to encourage participation by small and micro businesses in the Article 6.4 mechanism, especially in LDCs and SIDS.

The Secretariat presented a concept note on how to address this request. It explained that defining small and micro business is challenging, so a way of approaching the topic could be to use the scale of the activity as a proxy for the size of the businesses involved, cp. small-scale and micro-scale activities under the CDM. The Secretariat further proposed to specifically address small and micro businesses (using the definitions above) in methodology development, p. ex. through simplified or default additionality and baseline testing, or simplified monitoring requirements.

While the approach to defining small and micro businesses got mixed reactions among the Body members, all agreed that this issue should be addressed on a case-by-case basis when developing methodologies, including the options laid out above. In addition, the board will use future communications and engagement activities to find out more about the needs and issues small and micro businesses have.

Rules, Modalities and Procedures for the Mechanism

Removal activities under the Art. 6.4 Mechanism

Deliberations on removals were rather short at this meeting because the call for stakeholder input requested by CMA4 was still open at the time of the SB meeting. Therefore, Body members focused on giving the Secretariat overall guidance for updating its information note on the topic¹, and to structure the process of public consultation that the CMA had requested: the submissions received from the CMA call will be used to identify information gaps, which will then be the basis for specific questions to receive targeted input in the ensuing public consultations phase.

Regarding feedback on the information note, the Body members raised a number of high-level questions on well-known topics to the Secretariat², p.ex. in terms of definitions, regarding framing removals as processes *and* outcomes or as outcomes only, and on the choice of permanence measures. Some Members felt that the guidance should develop distinct guidance per activity category, especially with a view to the assessment of environmental and social impacts and to the application of safeguards.

Prior to the meeting, observers had warned, among others, that the information note still contains the controversial tonne-year crediting approach; this had been criticised by Body members in 2022 as well.

Based on the feedback, the Secretariat and the SB's informal removals working group are going

to update the information note based on the feedback and the views from Parties and Observers voiced in the CMA call.

Developing and assessing methodologies

The Body resumed its deliberations on principles for methodology development where it had to break off ahead of CMP4. The Secretariat presented proposals for revised draft guidance text, p.ex. on baseline approaches or additionality requirements. It had also road-tested the proposed requirements on highly-used CDM methodologies, such as ACM002 (grid-connected renewable energy generation, incl. grid emissions factor tool), AMS-I.L. (rural electrification) and AMS-II.G. (Energy efficiency measures in thermal applications of non-renewable biomass, compare Figure 2).

Pilot Testing with Cookstove methodology AMS-II.G

- Proposed approach is conservative compared with CDM approach.
- Bigger chunk of the drop could be attributed to correct fNRB numbers (a correction than a change).

Case No.	Country	ER using CDM approach (tCO ₂ /year/device)	ER using proposed approach (tCO ₂ /year/device)	Impact of changes (%)
1	Uganda	2.64	1.27	52
2	Lesotho	2.96	1.55	48
3	Madagascar	2.73	1.30	52
4	Nepal	1.43	0.76	46
5	Nigeria	2.23	1.39	38
6	Kenya	1.26	0.48	62
7	Rwanda	5.22	1.11	79
8	Ghana	3.72	1.27	66
9	Uganda	3.48	1.28	63

Figure 2: Varying emissions reductions achievable when applying alternative conservative approaches in comparison to CDM

¹ View the full information note at <https://unfccc.int/sites/default/files/resource/a64-sb004-aa-a04.pdf>

² cp <https://unfccc.int/sites/default/files/resource/a64-sb004-a02.pdf>

Regarding encouraging ambition over time, the Secretariat sought guidance on how to proceed. Should the stringency over time be achieved through a net-to-gross adjustment to the emission reductions, which is applied in all methodologies? Or should stringency take the form of a sector-specific or region-specific adjustment factor, or both? And if the latter, should IPCC or IEA scenarios be used as basis?

On applying a performance-based approach, the Secretariat had found out that in case of homogeneous sectors, the BAT route is suitable for application, while if varying circumstances for the technology or practice apply, ambitious benchmarking approaches are to be preferred. Further, if multiple parameters influence baseline emissions, performance-based approaches should cover all these parameters in order to ensure a conservative approach. Further topics the Secretariat sought guidance on cover additionality, leakage, and Standardized Baselines³.

The discussion brought to light once again the well-known divide between those who prioritize robustness and integrity and others who feel

that tight regulation leads to under-crediting. Some suggested to request more specific work on additionality and how examine different options for positive lists, negative lists and how to deal with possible lock-in effects.

Members also discussed at length on how to proceed most effectively. In the end, the Body decided that a small informal group of SB Members is going to continue working on the matter between the meetings, guided by specific questions. These cover the basic crunch issues from baseline setting, the use of performance-based approaches, additionality to leakage and non-permanence and reversals⁴. The questions will also be the basis of a call for inputs. Based on the inputs and literature, small groups of SB Members will work on specific thematic areas, providing inputs to the Secretariat, which is going to develop a revised information note. Deliberations will continue at the next meeting.

Procedures and tools for methodology development

On a more technical note, the Secretariat presented its proposals on structuring the process for developing a methodology or a Standardized Baseline. It suggested to build on the CDM rules, working with a methodology expert panel chaired by two the SB members, which draws on a roster of sector experts, compare Figure 3⁵. The Body mainly discussed options for the final decision making on methodological products, as this had been quite time consuming under the CDM. Therefore, the Secretariat had developed a proposal for fast-tracking decision making that

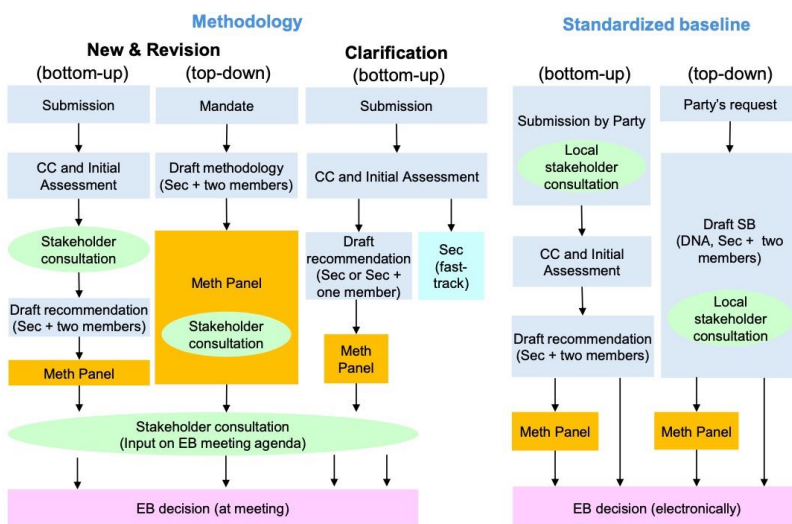


Figure 3: Methodology process under the CDM

³ See the full concept note at <https://unfccc.int/sites/default/files/resource/a64-sb004-aa-a10.pdf>, and the respective appendices at <https://unfccc.int/sites/default/files/resource/a64-sb004-aa-a10-app.zip>

⁴ Access the meth-related questions at <https://unfccc.int/sites/default/files/resource/a64-sb004-a03.pdf>

⁵ For the full concept note, please go to <https://unfccc.int/sites/default/files/resource/a64-sb004-aa-a08.pdf>

foresaw the set-up of a two SB member-committee that would develop recommendations to the SB. A decision would then be taken via electronic voting unless a member requests further discussion. In that case, the case would be considered at the next meeting.

The Body members supported the idea of faster decisions, but were reluctant to introduce this at the beginning of the process. The Body therefore decided to consider all new methodologies, tools, and SBL on a case-by-case basis at SB meetings for the time being, while it underlined that it might introduce measures to speed up the process at a later stage.

The Body also decided that this approach also be applied to developing the recommendation that is put forward to the Body for decision, i.e. the methodological panel considers a case and develops a recommendation, thus rejecting the fast track "Secretariat plus two experts" option that had been proposed. The Secretariat is going to draft a procedure for the development of methodologies, tools and standardized baselines for the next meeting.

Standards and procedures for processing Art.6 activities

The Secretariat presented the plan and the documents to be developed for the activity cycle, see the overview in Figure 4. The Body first discussed the activity standard, the validation and verification standard and the activity cycle procedure. The Body tasked the Secretariat to develop drafts of these documents based on the existing CDM documents but adapted to the Art. 6.4 RMPs.

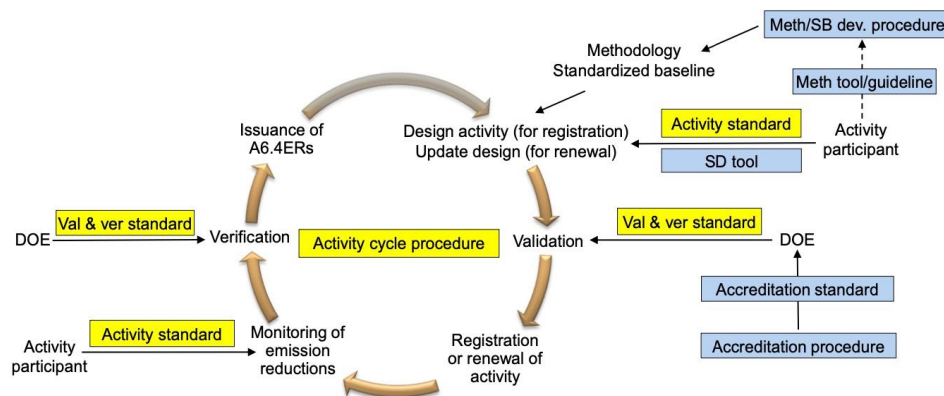


Figure 4: Regulatory documents to be developed for the activity cycle

In the discussion, Body members pointed out, among other things, that there a number of overlapping issues with the regulatory documents to be developed for tasks of of host Parties and DOEs, respectively, and asked to coherence when designing the processes. Others asked the Secretariat to draw on lessons from other crediting mechanisms.

As a first step, the Body requested the Secretariat to begin drafting regulatory guidance for projects and PoA, and to design two separate sets of regulatory documents. It noted that other types of activities such as policy, jurisdictional or sectoral programmes a per the Art. 6.4 RMPs will also begin to come in, but that these will be considered on a case-by-case basis.

Body members further asked the Secretariat to cover both emissions reductions and removals from the beginning on, including provisions for addressing non-permanence and reversals. Apart from guidance on procedural matters, the Body also requested the development of provisions to prevent double registration and double issuance under different activity types or different crediting schemes as well as an appeals and grievance process.

The workplan foresees presenting drafts of these regulations at the next meeting, with a view to finalization by SB 007 in September.

Sustainable Development tool

The Glasgow decision requires that the Supervisory Body develops a tool to assess Sustainable Development (SD) benefits for the Article 6.4 mechanism by the end of 2023. Based on discussions in 2022, the Secretariat presented an analysis and review of the CDM SD tool and other tools from the voluntary market.

The CDM SD tool is a voluntary tool that can be used by project proponents to claim environmental, economic and social sustainability aspects of their interventions with an option to voluntarily carry out monitoring and verification. A fixed set of 12 criteria and 70 indicators is used. The Secretariat reported that 77 out of 7844 registered CDM projects used the tool so far.

By contrast, tools like the Gold Standard’s SDG impact tool, Verra’s SD verified impact standard and the CCB Standards are all mandatory SD impact assessments, which are carried out by a third party, based on indicator sets and provisions, aligned to the SDGs.

With regard to the workplan 2023, the Secretariat asked members to first decide whether they preferred an independent, voluntary SD assessment process as in CDM, or if members opted for an inclusion into the Art. 6.4 project cycle and a mandatory assessment of SD, as this would greatly influence the timing of SD-related work.

In the discussion, most members spoke out in favor of a mandatory approach, pointing to the competition from the voluntary market and underlining that the Art. 6.4 mechanism to meant to become the top of the tops international standard, as one of the members put it. The Body thus decided that the Secretariat is to develop a mandatory SD tool built in the mechanism’s project cycle that to allows

to take into account specific SD objectives of each host Party, which are national prerogatives and that applies positive and negative SD impacts using quantitative and/or qualitative indicators.

Accreditation standards and Procedures

The Secretariat presented its concept note for the accreditation framework of the mechanism⁶. The role of Designated operational Entities (DOEs) is considered similar to the situation under the CDM. The proposed accreditation rules are therefore based on the CDM accreditation framework, cp. the overview of the CDM accreditation procedure in Figure 5. The Secretariat suggested changes to made on the existing documents mainly for alignment with ISO standards, p.ex. regarding the principle of a risk-based approach and the coverage of liabilities – which had been subject to intensive debates under the CDM.

The Body requested the Secretariat to revise its concept note and present the revisions at the next meeting. Key updates shall be made regarding to additional competence requirements for the assessment of Sustainable Development aspects (cp. the preceding section), a deepened

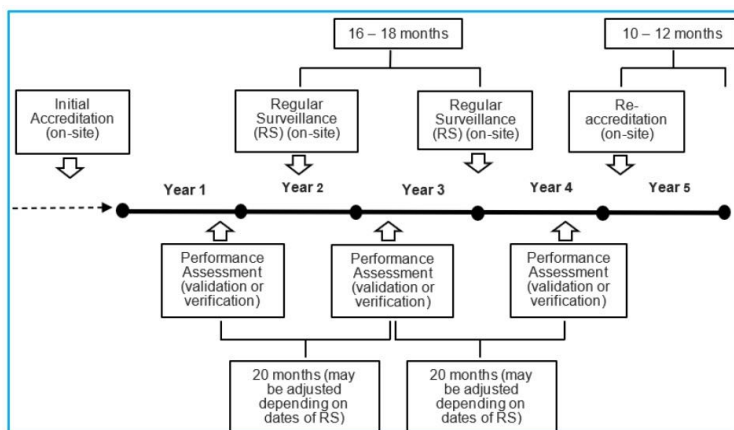


Figure 5: CDM Accreditation procedure

⁶ See <https://unfccc.int/sites/default/files/resource/a64-sb004-aa-a07.pdf>

analysis on the concept of liabilities from ISO 17029, as well as a comparison of pros and cons regarding the suggested amendments to the CDM accreditation framework, including a view on other GHG validation and verification schemes. Inputs from the DOE coordination forum shall be sought.

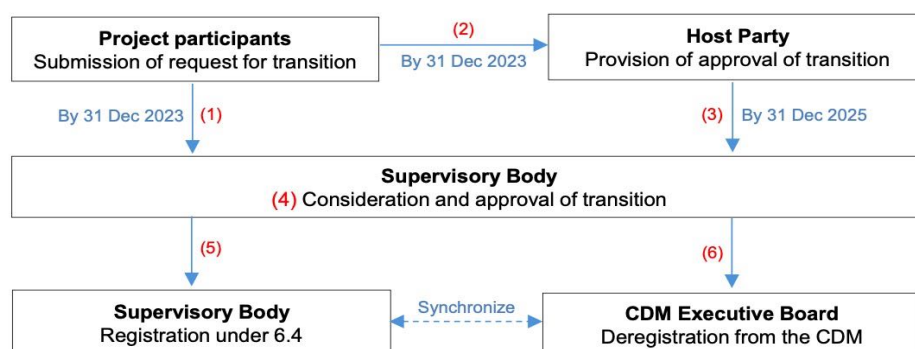


Figure 6: Steps and timelines for the transition process

Transition of CDM activities

The Secretariat outlined the steps to be taken based on the CMA's decisions at the Sharm-El-Sheik conference. The most urgent step is to develop a procedure and forms for requesting transition, which is due by June 2023. Further, a complete transition process is due towards the end of the year, and to be presented to CMA5.

The Body discussed key outstanding issues, including eligibility issues (details on crediting periods), or activity design (developing guidance for new or different elements compared to the CDM, such as long-term benefits, social impacts or GWP values for various GHGs to be applied post-2020 according to the Enhanced Transparency Framework)⁷.

The Body tasked the Secretariat with developing a draft transitioning standard and a procedure based on the concept note and the discussion for consideration at the next meeting.

A few aspects are still open, such as the validity period of currently applied CDM methodologies and the remaining length and renewability of the PoA period and the crediting periods of transitioning PoAs including their component activities. How to sequence checking the participation requirements and host Party approval is

also outstanding. The Secretariat's two options shall remain in the concept note for discussion at the next meeting:

- **Option 1:** Fulfilling participation requirements first, then host Party approval
- **Option 2:** Host Party approval any time; Processing starts only after fulfilling participation requirements

Templates for requesting the transition of CDM activities to the Supervisory Body and to the host Party will be developed as a priority with a view to the June deadline.

⁷ See the transition information note at <https://unfccc.int/sites/default/files/resource/a64-sb004-aa-a09.pdf>

Other matters

The Secretariat presented an updated plan on how to design the USD 10 million **capacity building** programme for developing countries that the CMP had mandated at its second session. Based on previous feedback, the Secretariat suggested to start with needs assessment, which forms the basis for developing targeted activities, including technical assistance to DNAs, activity proponents and DOEs in form of helpdesks or mentoring.

Focus areas span from supporting Parties to set-up a DNA, training courses on SD matters, compatibility with NDCs and LEDs and tools and guidance for national reporting processes.

The Body agreed to the proposed measures⁸ and asked the Secretariat to report back twice a year.

Further, the SB members selected experts to be included in the Art. 6.4 mechanisms **roster of experts** and decided that, in case of specific ad-hoc assignments, the Secretariat could carry out the selection.

Regarding national authorization bodies, the SB noted that **32 DNAs had been established** at the beginning of the meeting.

⁸ See the full programme at <https://unfccc.int/sites/default/files/resource/a64-sb004-aa-a12.pdf>

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