

Carbon Market Watch input to SBSTA on matters related to article 6 of the Paris Agreement



Views on enabling ambition in article 6 and transition of CDM activities to article 6.4

- June 2021

This submission is part of a series responding to the monthly calls from the SBSTA chair covering several aspects of Article 6. Carbon Market Watch's overall perspective on Article 6 is accessible [here](#). In previous submissions in this series, CMW has expressed its view on [share of proceeds for adaptation and avoiding double use of A6.4 ERs](#) as well as [the rapid operationalisation of Article 6](#).

Summary

CDM credits should not be allowed to transition to Article 6.4:

- The CDM largely failed to reduce overall emissions and has even undermined environmental integrity.
- Carrying over CDM credits could flood the market with as many as 4 billion “hot air” credits to the detriment of the climate as well as project developers.
- The CDM Executive Board *de facto* halted CDM projects from continuing to generate credits post-2020. Parties should formalise this at COP26/CMP16 and ensure that only projects reliant on CDM revenue can continue to benefit from carbon market finance.
- If CDM activities were to transition, they would need to abide by strict quality criteria to ensure emission reductions are real, measurable, additional, verifiable, permanent, and do no harm to local communities. At a minimum, activities must comply with Article 6.4 rules, modalities and procedures.

Enabling ambition in Article 6 requires mechanisms to not undermine climate action:

- Carbon markets are a means to an end -- they should be used to disburse results-based climate finance and there is no place for zero-sum game offsets.

- **Provisions must be established to exclude double counting and to set conservative baselines well below BAU.**
- **An automatic partial cancellation rate of credits should be implemented to guarantee “extra” emission reductions.**
- **Strict limits on credit transfers are needed to limit the risk of trading “hot air”.**

Introduction

Carbon Market Watch (CMW) welcomes the opportunity to provide inputs on this topic as well as the open nature of the Article 6 dialogues organised by the SBSTA Chair. We encourage the SBSTA Chair to continue to open future sessions to observers as much as possible.

Transition of the CDM components to Article 6.4 mechanism

CMW firmly contends that Clean Development Mechanism (CDM) credits should not be used under the Paris Agreement. The Paris Agreement’s goal of limiting global warming to 1.5°C, through emissions reduction targets laid out by all Parties is a world away from the Kyoto Protocol. In line with this progression, the ongoing negotiations around Article 6 must ultimately deliver a clean break from the past.

CDM has not delivered overall emission reductions

By and large, the CDM failed to reduce overall emissions.¹ By design, the Certified Emission Reductions (CER) issued under the CDM represented a zero-sum game that displaced emissions. Instead of reducing their own emissions, many companies were able to use CDM credits under emissions trading systems, like the EU ETS, to continue polluting even though such credits did not necessarily represent real emission reductions.

It is estimated that 85% of CDM projects and 73% of potential 2013-2020 CERs have a low likelihood of providing “additional” emission reductions that are not over-estimated.² In this way, many CDM projects lessened the climate mitigation of countries’ efforts, as countries and companies paid for credits which did not represent real reductions. Under the EU ETS, 1.54

¹ Carbon Market Watch (CMW) (2018): “[The Clean Development Mechanism: Local Impacts of a Global System](#)”; CMW (2020): “[Carbon markets 101 - the ultimate guide to global offsetting mechanisms](#)”

² Öko-Institut (2016): “[How additional is the Clean Development Mechanism? Analysis of the application of current tools and proposed alternatives](#)”

billion international credits were used between 2008 and 2020, equivalent to 96% of the estimated total entitlements granted to companies, which is problematic given the non-additional nature of most credits.³ Similarly, numerous ERUs under the Kyoto Protocol's Joint Implementation mechanism which were generated in the late 2000s and early 2010s -- costing only a few cents to issue -- and were banned from compliance carbon markets for most of the 2010s, have been found to still be in circulation in the voluntary carbon market, pointing to far-reaching long-term impacts that were not self-regulated by the market.⁴ Outcomes such as these are incompatible with Article 6.4, which dictates that the mechanism "shall deliver an overall mitigation in global emissions" -- a pointed departure from the zero-sum mentality of Kyoto Protocol mechanisms.

Transitioning CDM credits has no clear basis and could flood the market with junk credits

If CDM credits are permitted to transition without any limits, the market could be flooded by billions of junk credits. In the absence of restrictions, such as limiting the eligibility of credits by a registration cut-off date, the potential supply of CERs representing past emission reductions could climb above 4 billion credits.⁵ If CERs are deemed eligible for transition to the Paris Agreement era and if the price of credits rises, CDM projects that were formerly registered but have been "dormant" (no issuances) will be incentivised to issue credits for emission reductions that can be more than a decade-old. These projects are not vulnerable to the discontinuation of the CDM, and will continue to reduce emissions anyway.

Under a decision taken at the 105th meeting of the CDM Executive Board (EB), projects had until September 30th 2020 to renew their crediting period if it had expired previously.⁶ While there is no clear data available on this yet, IGES et al. (2020) have estimated that this decision does not materially impact the potential supply of CERs post-2020.

³ European Commission (2020): "[Report on the functioning of the European carbon market](#)"

⁴ Carbon Pulse (22.03.2021): "[Exclusive: Discredited, ageing Kyoto offsets re-emerge to taint voluntary carbon market](#)"

⁵ Institute for Global Environmental Strategies (IGES), Mitsubishi UFJ Research and Consulting Co., Ltd., NewClimate Institute, & Öko-Institut (2020): "[CDM supply potential for emission reductions up to the end of 2020](#)"

⁶ CDM Executive Board (2019): "Meeting report: CDM Executive Board 105th meeting", available at https://cdm.unfccc.int/EB/archives/meetings_20.html.

If the market were flooded with billions of cheap CERs carried over to the Paris Agreement era, this would risk repeating the vast oversupply and corresponding low prices experienced under the Kyoto Protocol, to the detriment of project developers. Carrying over old credits is a lose-lose both for the climate and for project developers.

The CDM EB's December 2020 decision confirmed that there is no clear basis for the CDM to continue operation post-2020, pending future CMP guidance at CMP 16.⁷ While the CDM EB will continue to process requests for registration and renewal of crediting periods of projects with a crediting period starting post-2020, these cannot be finalised. In other words, after 2020 no CDM project can be registered, no crediting period renewed, and no credit issued for post-2020 emission reductions

Strict quality criteria needed to reassess CDM projects and methodologies

At CMP16, we urge Parties to confirm that no credits from the Kyoto Protocol mechanism, including CERs, ERUs and AAUs, can be used towards NDC objectives, as well as to establish a framework for the orderly reassessment of all CDM projects to ensure that only the vulnerable ones can transition into the new mechanism. Continuing to allow the use of CERs would be misguided and would have significant negative consequences for emission reductions and the credibility and effectiveness of market-based climate mechanisms.

While it is clear that no CDM credits should transition to the Paris Agreement era, all projects and methodologies imperatively need to be re-assessed against stringent quality criteria. Article 6 rules must serve as a floor to screen CDM projects and methodologies in order to ensure real emission reductions which are measurable, additional, verifiable and permanent, all while avoiding double counting and harm to local communities. For example, any CDM project that would be transitioned under the Article 6.4 mechanism would need to implement corresponding adjustments for issued credits, including if they cover activities outside the scope of a host country's NDC.

The Climate Action Network, the world's largest network of climate and environmental NGOs in the world, has long held the same steadfast conviction as CMW that CDM activities must be

⁷ CDM Executive Board (2020): "Meeting report: CDM Executive Board 108th meeting", available at https://cdm.unfccc.int/EB/archives/meetings_20.html.

reassessed against stringent criteria before any can be permitted to transition, and that no CER should be used post-2020.⁸

Enabling ambition in Article 6 instruments

Despite a temporary reduction in emissions in 2020 due to COVID-19, global emissions show no signs of significantly slowing and atmospheric concentrations of CO₂ continue to rise -- 416 ppm as of April 2021.⁹ The UNFCCC's analysis of 75 Parties' submitted NDCs by 31 December 2020, representing approximately 30% of global GHG emissions, confirmed that countries' climate ambitions are deeply inadequate to reach the Paris Agreement's 1.5°C temperature goal: the combined impacts of the 75 Parties' NDCs indicates an emission reduction of a meagre 0.5% by 2030 compared to 2010 levels.¹⁰

As the impacts and urgency of the climate crisis accelerate in the face of inadequate mitigation targets, it is evident that we absolutely cannot afford zero-sum game offsetting under Article 6 instruments. Carbon markets are a means to an end. While they can help lower emissions when they are functioning well, they can also be detrimental to climate action, for instance if credits substitute domestic action or lack environmental integrity, as previously detailed.

Enabling ambition starts by ensuring Article 6 does not undermine the Paris Agreement. Environmental integrity must be maintained, *inter alia* by avoiding double counting -- including double claiming/issuance/use -- and setting corresponding adjustments, even if the credit remains outside the scope of a host country's NDC. It also requires adopting provisions to ensure that conservative baselines are set well below BAU and taking into account the NDC trajectory. Setting conservative baselines is of the utmost importance to ensure Article 6 mechanisms do not undermine or diminish climate action.

Beyond the clear parameter of representing a real, permanent, verified and additional reduction of a tonne of CO₂, a carbon credit cannot be used on a 1-1 basis to compensate for emissions. An automatic partial cancellation rate of credits should be adopted under Article 6 to ensure that an overall mitigation in global emissions is achieved. Doing so would increase

⁸ CAN (2019): "[Madrid: Responding to the People and the Science](#)", p.15

⁹ UNEP (2021): "[Emissions Gap Report 2020](#)"; NASA (n.d.): "[Vital Signs of the Planet: Carbon Dioxide](#)"

¹⁰ UNFCCC (2021): "[Nationally determined contributions under the Paris Agreement: Synthesis report by the secretariat](#)"

the volume of implemented projects, most of which would likely be in developing countries; in turn, this could support technology transfer and capacity building while guaranteeing emissions are lowered.¹¹ Article 6 can drive ambition precisely by promoting real, “extra” emission reductions through the implementation of an automatic partial cancellation rate, rather than simply offering a cheaper and less robust way of reaching a mitigation target.

Credits should not be used to meet NDC targets. At a minimum, strict limits on their use are required. To avoid the well-documented transfer of “hot air” to other countries, a quantitative limit on the number of international emissions reduction units transferred should be set.¹²

Countries should reach their NDC targets through domestic emission reductions, and should only use Article 6 market mechanisms to disburse results-based climate finance. By adopting stringent rules under Article 6, countries will be able to measure the exact impacts of their finance through the purchase of carbon credits. That being said, under no circumstances should the purchase of credits be counted as a climate finance contribution if the underlying emission reduction is also counted towards the acquiring Party’s NDC target. This would be a form of double counting.

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¹¹ Schneider & Warnecke (2019): “[How could the concept of an "overall mitigation in global emissions" \(OMGE\) be operationalized under the Paris Agreement?](#)”

¹² CMW (2019): “[Empty targets? How to avoid trading of hot air under the Paris Agreement](#)”; CMW (2019): “[How to keep hot air out of the Paris Agreement: technical proposal](#)”