

Chair's reflection notes on ERCST' Article 6 workshop on May 26, 2020: *CDM transition numbers*

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This note is meant as an aide-memoire and reflects issues and a logic that has captured the attention of the Chair of the meeting that took place on May 26, 2020. It is in no way meant as a summary, or an endorsement by the author, or the participants in the meeting, of any of the issues or views captured in this note.

ERCST's Article 6 meeting on *CDM Transition Numbers* took place on May 26, 2020. Below, some take-aways from the discussion are outlined.

- The estimations of the CER supply potential are converging towards a common ground, although the estimate of additional supply potential from the project pipeline depends on the estimation scenarios and will only become clear at the end of 2020. This could bring in substantial uncertainty, and thus estimates will need to be updated at the end of 2020.
- Several supply and demand side factors influence estimates of CER supply potential, including:
 - Project implementation and operation status: some registered projects have not been implemented and as such they will not issue CERs.
 - Changes in the project design, which may result in the methodology applied for monitoring and quantification of ERs not being relevant or applicable.
 - The impact of crediting period renewal procedure: without renewal, future crediting period CER issuance will not happen; and the projects being renewed will need to update the baseline and monitoring methodology between periods impacting the issuance of CERs.
 - The impact of missing data on monitoring: without monitoring, the necessary parameters for quantification of ERs cannot be claimed.
 - The estimation of additional supply potential in the project pipeline, which will become clear at the end of 2020.
 - Factors affecting credit issuance of registered projects: using an average rate leads to a lack of detailed information for the estimate. Using a project-specific issuance rate might provide more accuracy in the estimates.
 - The likelihood that projects which haven't issued in recent years will reapply under A6.4.
 - Demand from CORSIA.
- Although the time between the registration of new CDM projects and the beginning of the first crediting period is short, it could nonetheless lead to a substantial increase in numbers, which should be closely monitored.

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- In order to get a better estimate of the CER supply potential, Parties should be supported in providing additional details on the projects in their countries.
- There are several key aspects that will have to be clarified before analytical work on the transition of ongoing CDM projects can be designed, including what will happen to CDM project activities after 2020 under different scenarios (one of which being that it will not be possible to issue CERs).
- It is also necessary to identify what additional analytical work and considerations are needed to ensure an expedited process for the transition of CDM projects under A6.4.
- The CERs issued to date are only a fraction of the total volume that could be expected, owing to a lack of demand rather than to oversupply. Additionally, the number of projects in the pipeline is small compared to the ambitious targets of the Paris Agreement, even if projects in validation are not discounted. It can be expected that, if CERs were to be carried over, they would not flood the Article 6 market.
- The absence of demand can be a consequence of the failure to discuss what the mechanism should look like in the future.
- There is also not enough volume to cover CORSIA demand in the first period, although it can be assumed that the forecast up to 2035 will change as new projects will register by then.
- There is a difference between forecasts and supply potential, with implications for the estimate of what would happen if new demand for CERs was created. For instance, some dormant projects request renewal although they never issued, and it can be assumed they will issue for a higher CER price. This has to be taken into account when making estimates.
- To stimulate ER demand and incentivise additional reductions, policymakers will have to intervene also to choose the balance between incumbents in the markets and those who might want to invest. Demand from markets like the EU ETS will be needed to drive investment in other countries.
- This topic is coupled with the discussion on how to end the CDM and start A6.4M while ensuring that this transition results in an increase in ambition. Some key considerations include how and what CDM infrastructure is to be preserved or be restructured, with some seeing methodologies as having to be updated on a case-by-case basis, and what will be the use of certificates that will not be carried over.

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- Ultimately, a question is how much A6.4 will raise ambition and how much ambition can be compromised in the transition from the CDM.
- To facilitate future discussions, it could be helpful to analyze more scenarios including a regional repartition of CERs with classification of SIDS, LDC, and countries with less than 10 CDM projects. Also, the most referred methodologies need to be analyzed.
- It could also be useful for the negotiations to look at the impact of restriction requirements or vintage dates for the regions where possible CERs might come. This is different from the timing and vintage dates.
- It was noted that CORSIA's decision on numbers and vintages was done with a different logic than the UNFCCC's and therefore CORSIA's decisions should not influence UNFCCC's outcomes.