

Progress achieved by the Article 6.4 Supervisory Body on relevant mandates in 2022

12/2022

Discussion Paper

Axel Michaelowa, Juliana Keßler, Aayushi Singh, Ximena Samaniego

IMPRINT

Publisher:

Perspectives Climate Research gGmbH

Lead authors:

Axel Michaelowa, Juliana Keßler, Aayushi Singh, Ximena Samaniego

Date:

12/2022

ACKNOWLEDGEMENTS

This paper was developed by Perspectives Climate Research gGmbH (PCR), with inputs from the Carbon Market Mechanisms Working Group (CMM-WG). We thank all the working group members and technical experts as well as the workshop speakers for their input to this paper.

The CMM-WG is chaired by PCR and is funded and coordinated in close collaboration with the German Federal Ministry for Economic Affairs and Climate Action. The CMM-WG focuses on technical aspects of programmatic and upscaled crediting mechanisms in Article 6 of the Paris Agreement as well as results-based climate finance. The working group aims to facilitate a continuous dialogue on technical issues among key carbon market stakeholders. For more information go to:

<https://www.carbon-mechanisms.de/en/news-details/cmm-wg>

DISCLAIMER

The analysis, results, and recommendations in this paper, funded by the German Federal Ministry for Economic Affairs and Climate Action, represent the opinions of the authors and are not necessarily representative of the position of the funder.

Contact CMM-WG coordinator:

Juliana Keßler

kessler@perspectives.cc

© Perspectives Climate Research gGmbH | December 2022

All rights reserved.

Table of contents

- 1. OBJECTIVE AND SCOPE OF THE DISCUSSION PAPER** **2**
- 2. DRAFT WORKPLAN OF THE ARTICLE 6.4 SUPERVISORY BODY** **3**
- 3. METHODOLOGY-RELATED OUTPUTS OF SB 001, SB 002 AND SB 003** **6**
 - 3.1. REQUIREMENTS FOR MECHANISM METHODOLOGIES **6**
 - 3.2. RECOMMENDATIONS FOR ARTICLE 6.4 ACTIVITIES INVOLVING REMOVALS **12**
- 4. OTHER RELEVANT OUTCOMES OF THE A6.4SB MEETINGS TO DATE** **15**
 - 4.1. STRUCTURE AND LEVELS OF SHARE OF PROCEEDS **15**
 - 4.2. CAPACITY BUILDING WORK PROGRAMME ON ARTICLE 6.4 **16**
- 5. RECOMMENDATIONS FOR THE UPCOMING SB MEETINGS IN 2023** **17**
- REFERENCES** **19**
- ANNEXES** **21**
 - ANNEX A: A6.4SB MEMBERS **21**
 - ANNEX B: INFORMAL WORKING GROUPS **22**

Table of Figures

- Figure 1: Draft workplan of the A6.4SB for 2023..... 5
- Figure 2: Recommended administrative fees..... 16

Abbreviations

A6.4ER	Article 6.4 Emission Reduction
A6.4M	Article 6.4 Mechanism
A6.4SB	Article 6.4 Supervisory Body
BAU	Business-as-usual
BCF	Baseline Contraction Factor
CB	Capacity Building
CCS	Carbon Capture and Storage
CDM	Clean Development Mechanism
CDM EB	Clean Development Mechanism Executive Board
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
GHG	Greenhouse Gas
LDC	Least Developed Country
MO	Mitigation Outcome
NDC	Nationally Determined Contribution
OMGE	Overall Mitigation in Global Emissions
PA	Paris Agreement
RCC	Regional Collaboration Centre
REDD+	Reducing Emissions from Deforestation and Forest Degradation
RMP	Rules, Modalities and Procedures
SIDS	Small Island Developing States
SoP	Share of Proceeds

1. Objective and scope of the discussion paper

As per the rules, modalities and procedures (RMPs) for the Article 6.4 Mechanism (A6.4M), the role of the Article 6.4 Supervisory Body (A6.4SB) is to supervise the mechanism under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA). At COP26 in Glasgow in 2021, the A6.4SB was mandated to (UNFCCC 2022a):

- Establish the requirements and processes necessary to operate the mechanism, including but not limited to:
 - accreditation of operational entities as designated operational entities
 - the development and/or approval of methodologies and standardized baselines for Article 6.4 activities
 - registration of Article 6.4 activities, the renewal of crediting periods of registered Article 6.4 activities and the issuance of Article 6.4 Emission Reductions (A6.4ERs)
 - Share of proceeds (SoP) levied for adaptation and administrative expenses
 - delivery of overall mitigation in global emissions (OMGE)
 - approval and supervision of host Party national arrangements for accreditation of operational entities; development of mechanism methodologies; and application of the crediting periods and renewal of crediting periods
 - application of robust, social and environmental safeguards
 - development of tools and approaches for assessing and reporting information about how each activity is fostering sustainable development, while acknowledging that the consideration of sustainable development is a national prerogative
 - ensuring that the mechanism facilitates achievement of the long-term goals of the Paris Agreement (PA)
- Support the implementation of the mechanism by
 - developing and maintaining a public website for information related to proposed and registered Article 6.4 activities
 - taking appropriate measures to promote the regional availability of designated operational entities in all regions
 - facilitating dialogue with host Parties and other stakeholders in the mechanism
 - providing public information to the CMA on all registered Article 6.4 activities hosted by each Party and all A6.4ERs issued for those activities
 - implementing capacity-building activities

The A6.4SB consists of 12 members from Parties to the PA, selected from the five UN regions, required to have relevant scientific, technical, socioeconomic or legal expertise and striving to achieve equitable geographical and gender-balanced representation. They shall serve for a

term of two years, for a maximum of two terms. Originally it was planned to have the A6.4SB operational in early 2022. However, it took until June 2022 for the appointment of all A6.4SB members. The list of the A6.4SB members is presented in Annex A. Some members and alternates have long-standing experience as Article 6 negotiators, while others have experience from serving on the Clean Development Mechanism Executive Board (CDM EB).

Due to the delays in the appointment of A6.4SB members, the A6.4SB met three times within a span of less than five months ahead of COP27 in November 2022 to deliver on its mandate. The objective of this discussion paper is to discuss the key methodology-related and other outputs of the first three meetings of the A6.4SB (SB 001, SB 002 and SB 003) against its draft workplan and flag key issues for the upcoming meetings in 2023.

2. Draft workplan of the Article 6.4 Supervisory Body

Following SB 001 in July 2022, the UNFCCC Secretariat was tasked to prepare a comprehensive two-year workplan for the A6.4SB reflecting the mandate provided by CMA.3 with an overview of the issues to be considered by the A6.4SB at each meeting in 2022 and 2023. The workplan aims to structure the work of the A6.4SB in a balanced and effective manner, such that the principle of transparency remains intact not just for the A6.4SB but also for relevant Article 6 stakeholders and observers who will provide their input to processes of the A6.4SB.

Given the short timeframe available in 2022 for A6.4SB to progress on its extensive mandate, 'priority workplan activities' were identified at SB 001. These included (UNFCCC 2022b; UNFCCC 2022c):

- elaboration and agreement of the draft rules of procedure
- elaboration and agreement on the appropriate levels for the SoP for administrative expenses and operation of the A6.4M
- development of processes for implementing the SoP to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet their costs of adaptation
- elaboration and agreement on recommendations to the CMA on activities involving removals
- elaboration and agreement on recommendations to the CMA on the application of methodological requirements

With regards to the last two activities, the A6.4SB aimed to set out key principles and high-level requirements on methodologies as well as recommendations for activities involving removals for consideration at CMA.4. However due to the complexity of the topics and the limited time available, the A6.4SB managed to reach a last-minute agreement on activities involving removals but was unable to conclude its work on methodological requirements at SB 003.

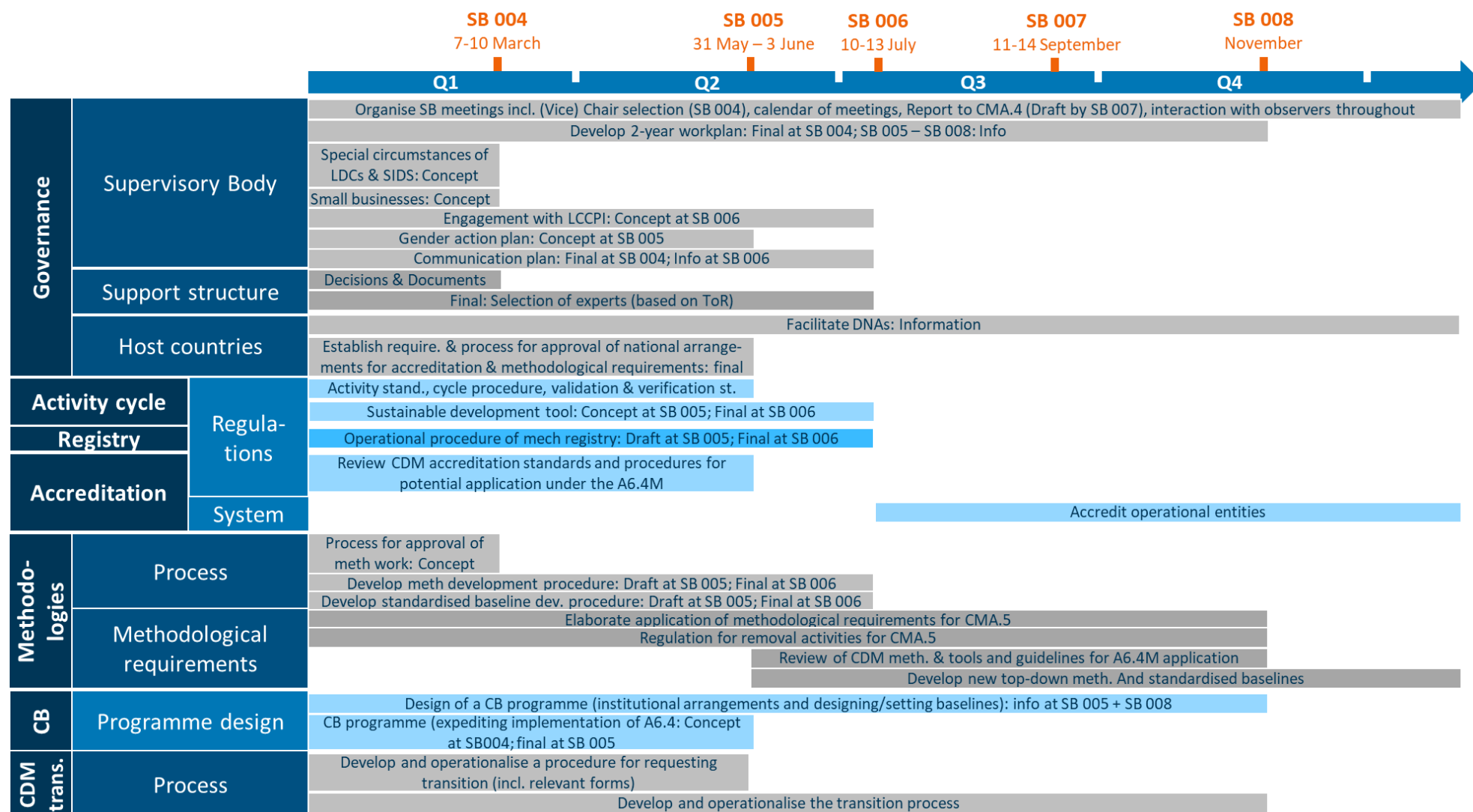
At COP27, the CMA adopted the rules of procedure of the A6.4SB and took note of the level of SoP proposed by the A6.4SB and that these are to be reviewed periodically for ensuring the sound operation of the A6.4M and the Adaptation Fund (UNFCCC 2022n, para 7, 14). The CMA did not approve the removals text proposed by the A6.4SB and requested it to revisit the text for a decision at COP28 (CMA.5). It also asked for a text on methodological requirements (UNFCCC 2022n, para 21-22). Finally, the A6.4SB was tasked with developing and operationalising

a procedure for requesting transition from the CDM by June 2023 as well as the actual process (UNFCCC 2022n, para. 23).

Considering this, the remaining mandates to be delivered by the A6.4SB include (UNFCCC 2022b; UNFCCC 2022c; UNFCCC 2022n):

- Activity standards and procedures
- Validation and verification standard
- Recommendations on the application of methodological requirements
- Review of methodologies, standardised baselines, methodological tools and guidelines from the CDM and other market-based mechanisms as a basis for developing standards for the A6.4M
- Methodology development and standardised baseline development procedure
- Recommendations on activities involving removals
- Review of the sustainable development tool used by the CDM and other similar tools
- Review of the accreditation standards and procedures of the CDM with a view to applying them with revisions for the A6.4M
- Developing and operationalising a procedure for requesting transition, which includes relevant forms, by June 2023
- Developing and operationalising the transition process and reporting back to CMA.5
- Considering ways to encourage participation from least developed countries (LDCs), small island developing States (SIDS), local communities, indigenous peoples, women and small and micro businesses
- Developing recommendations for further responsibilities of the A6.4SB and of host Parties regarding the application of national arrangements for adoption at CMA.6
- Support the forum on the impact of the implementation of response measures in considering ways to address any negative social or economic impacts, especially those on developing country Parties, resulting from Article 6.4 activities (once request is received).

Figure 1: Draft workplan of the A6.4SB for 2023



Source: Authors based on UNFCCC (2022b), UNFCCC (2022n)

Furthermore, the A6.4SB has requested to set up a support structure with external expertise in technical matters related to the A6.4SB's work. Such external expertise may be found either from within the CDM support structure or externally. In this regard, a roster of experts will be established by early 2023 as a useful source of expertise for the A6.4SB to rely on to further its work on its mandates. Additionally, broader input from structured public consultation processes may be considered by the A6.4SB when developing recommendations for the application of methodological requirements and for removal activities (UNFCCC 2022n, para 22).

Overall, the workplan remains extremely ambitious and the experience of the first three meetings of the A6.4SB as well as past experience with the CDM EB suggests that completing it successfully within two years is unrealistic. This is even more likely if there are differences how to interpret principles and criteria of the RMPs among A6.4SB members as discussion at SB 003 revealed. This will be looked at in more detail in the next section.

3. Methodology-related outputs of SB 001, SB 002 and SB 003

To expedite the work on methodology-related outputs, two smaller informal working groups on methodologies and removals were established at SB 001, comprising of A6.4SB members, alternate members and UNFCCC Secretariat staff (see Annex B for composition of working groups). The informal working groups developed draft recommendations to the CMA on methodologies and removals respectively, as input to SB 002 and SB 003. The work of the informal working groups was supported by the preparation of information notes on these topics by the Secretariat containing options and recommendations for the consideration of the A6.4SB.

In the following sub-sections, the discussion paper explores the different options laid out in the draft recommendations as well as information notes on mechanism methodologies and removals.

3.1. Requirements for mechanism methodologies

At SB 001, the concept note "Guidelines for the implementation of methodological principles, approaches and methods for the establishment of baseline and additionality" (UNFCCC 2022d) developed by the Secretariat was the starting point of discussions defining the "direction of travel" (Carbon Pulse 2022). Table 2 in said concept note lists seven key principles¹ such as "encouragement of ambition over time", "below business as usual" and "recognition of suppressed demand" contained in the Article 6.4 decision (3/CMA.3, Annex, para. 3) including guiding questions for the A6.4SB to facilitate the development of further guidance. The concept note further elaborated on the lessons learned from the CDM on the different baseline setting approaches. It outlined different options how the key principles can be operationalised including innovative concepts such as the application of a linear or staggered discount

¹ Full list of key principles: Shall encourage ambition over time; encourage broad participation; below business as usual; avoid leakage where possible; recognize suppressed demand; be real, transparent, conservative, credible; contribute to equitable sharing of mitigation benefits between participating Parties.

factor for setting the baseline based on existing actual or historical emissions adjusted downwards and the development of a negative list for coal and lifetime extension of fossil fuel infrastructure.

These seven principles were discussed on a broad level. While some A6.4SB members questioned the feasibility of “unpacking” the technical elements into generic recommendations, an agreement was eventually reached that the principles should be further elaborated to provide accessible and easy guidance to users.

Besides, the A6.4SB stressed the need for capacity building on methodological aspects of host Parties, so that these can participate in the A6.4M. It also recognised and requested the Secretariat to move forward with the revision of a sample of CDM methodologies from key sectors such as energy, buildings, industry, transport, waste (UNFCCC 2022d, para. 42) due to the relevance of the technical outputs that are needed for drafting the recommendations in the next meeting.

Ahead of SB 002, a draft recommendation and information note “Requirements for the development and assessment of mechanism methodologies” (UNFCCC 2022e; UNFCCC 2022f) was published. The text included new options for each of the seven principles mentioned above.

At the beginning of SB 002, it was noted by the A6.4SB members that the ‘options’ outlined in the draft recommendation should be considered ‘ideas’ as no consensus had been reached in the informal working group. The text on mechanism methodologies was considered to be in a better shape than the one on removals (see section 3.2). There was also a call to simplify requirements as far as possible and to incorporate flexible options for host Parties with capacity constraints. Another point raised was that providing a list of options to the CMA is also guidance and that Parties could then further guide the selection of options or their combination.

One of the most discussed aspects was the requirement of **encouraging ambition over time** and the three outlined options to operationalise it. The first option describes the capping of baselines through the application of two factors: a baseline contraction factor (BCF) and a baseline emissions benchmark (BE1S). Different options to determine both are given in the text also in terms of who should develop the approach and who should have oversight over the process. However, the technical specificities of these new concepts were not discussed during SB 002 as members raised a lack of technical clarity on their application. The need to receive inputs and technical support from external experts on this issue was stressed. The other two options are less specific and describe different elements that mechanism methodologies shall facilitate or use including for transformative mitigation activities (UNFCCC 2022e). Option 2 outlines five transformative criteria that shall be promoted by mechanism methodologies including deep decarbonisation of the economic system by going beyond low-hanging fruit, future thinking, expanded scope of mitigation actions beyond incremental improvement of industrial processes, enhanced sustainability and scale through scalable activities (UNFCCC 2022e, para. 17). Option 3 highlights six elements for consideration by methodologies (UNFCCC 2022e, para. 18):

- To progressively include more efficient and less greenhouse gas (GHG)-intensive project technologies/measures in programmatic approaches
- To install more equipment/measures using the same technology over a period
- To enable additional coverage of sectors over a period

- To increase the stringency of baselines during each renewal of the crediting period
- To incentivise new low-emission technologies with very low penetration rates (<10%) by considering them automatically additional and excluding those with a high rate (>50%)
- To make additional investments in adopting digital (monitoring) technologies.

Other principles for which the draft recommendation presents options include “encouraging broad participation”, “shall be real, transparent, conservative and below business-as-usual (BAU)”, “recognizing suppressed demand”, “contributing to the equitable share of mitigation benefits between participating Parties”, “aligning with the long-term temperature goals of the Paris Agreement [...] and “shall include relevant assumptions, parameters, data sources and key factors [...]. For an overview of the outcomes of the discussions at SB 002, see Table 2.

The draft recommendation text also addressed the **requirements on baselines**. First, the text reiterates the three baseline setting approaches from the decision text (best available technologies, ambitious benchmark, approach based on existing actual or historical emissions adjusted downwards) and then comments on the approaches’ applicability based on whether a mitigation activity produces outputs or not. It is argued that an activity that does not generate output (e.g., methane flaring from a landfill) and for which the incentive of the mechanism is not the key driver of action cannot apply the third baseline setting approach (UNFCCC 2022e para. 41). For both conditions, some more detailed guidance is provided (UNFCCC 2022e para. 44-45). What concerns the required downward adjustment for the third baseline setting approach, this shall be addressed by the provisions for the “ambition over time” principle.

The proposed **additionality approach** in the draft recommendation text includes the necessary aspects to demonstrate additionality by promoting a robust assessment that shows the activity would not have occurred in the absence of the incentives from the mechanism, considering all relevant national policies or legislation, and taking a conservative approach that avoids locking in levels of emissions, technologies or carbon-intensive practices (UNFCCC 2022e). Also, it proposes the development of a global positive list of activities that will be automatically additional if they meet specific criteria such as “have zero emissions or have net negative emissions (or removals); not being legally required; not being financially attractive in any circumstances” (UNFCCC 2022e, para. 49).

Table 2 specifies the outcomes of the discussion regarding each methodological principle and requirement:

Table 1: Outcome of discussion on methodological requirements at SB 002

Principle/requirement	Outcome of discussions at SB 002
Encouraging ambition over time	Although consensus was not achieved, the third option was the most supported one by the A6.4SB members. However, members also raised the need to enhance this option through adding option 1 (cap on baseline emissions) as an element as well as some elements of option 2.
Encouraging broad participation	Concerns about how a methodology could comply with the five listed aspects in the draft recommendation were raised. The second bullet point that broad participation shall be encouraged by methodologies through

Principle/requirement	Outcome of discussions at SB 002
	ensuring that all its requirements are relevant and address environmental integrity issues raised concerns of some A6.4SB members. They suggested that addressing environmental integrity issues is a broader topic including its demonstration and that it would better fit under the transparency principle. In general, A6.4SB members agreed on the necessity to make the text for this principle simpler and to keep it at one paragraph without bullet points.
Shall be real, transparent, conservative, credible and below business-as usual (BAU):	Some A6.4SB members raised concerns about the provision on below “below business-as-usual (BAU)” outcomes (UNFCCC 2022e, para. 24). Besides, the need for consistency between paragraph 36 and this guideline was stressed.
Avoid leakage where applicable	In general, the A6.4SB members agreed on the text but it was flagged that this should avoid duplication with the guidance for removal activities. A special concern about the monitoring of leakages at country level was raised (see UNFCCC 2022e, para. 26). It was also mentioned that it would be important to consider jurisdictional approaches that in principle apply just for REDD+ but for which the interest from industry is increasing significantly. A6.4SB members requested the further elaboration of this principles in accordance with the guidance for removal activities.
Recognising suppressed demand	The draft recommendation states that methodologies shall address suppressed demand “when a minimum service level to meet basic human needs, such as lighting, cooking, [...] is unavailable [...] prior to the implementation of the activity” (UNFCCC 2022e, para. 27). A6.4SB members generally agreed with the definition, recognising the principle’s long history in the CDM. It was stressed that the principle should be subject to the authorisation of the host country.
Shall include relevant assumptions, parameters, data sources and key factors [...]	The A6.4SB members raised various concerns on the text proposal for para. 37-39 starting by the need to include “data quality”. In addition, it was noted that leakage and reversals should not be addressed by this principle. Besides, high-level guidance on uncertainty may be included under this principle.
Contribute to equitable sharing of mitigation benefits between participating Parties	It was agreed that this principle requires further discussion as it can have impacts on low-carbon pathways.
Requirements on baselines	Overall, all A6.4SB members showed discontent with the proposal. Concerns about providing more confusion than clarity, placing a second conditionality, misinterpreting the additionality guidance (as activities for

Principle/requirement	Outcome of discussions at SB 002
	which the mechanism is not a key driver would probably be not additional), and not being sufficiently flexible were flagged.
Additionality	Only limited discussion on this requirement took place. The need to cross-reference the defined options with the criteria in the methodology guidance was stressed.

Source: Authors

At SB 003, the A6.4SB began its discussion with the intention to finalise the formulation of recommendations on methodologies for adoption by CMA.4 at COP27. The Secretariat developed new iterations of the draft recommendations and the information note for SB 003 that identify different options, assess the interrelationships between the different options and elaborate the pros and cons in detail. These draft recommendations and information note were prepared considering the public input received by the Secretariat from stakeholders. Following intense discussions for three days, the information note ‘Status of current work on the application of the requirements referred to in chapter V B (Methodologies) of the rules, modalities and procedures’ was released that captured the progress but also its inability to achieve compromise on certain options and will serve as basis for future work (UNFCCC 2022g). The key features of the document and corresponding discussions are highlighted below.

The status report records contention on the operationalisation of the principle of **encouraging ambition over time**. Approaches might include increasing the stringency of baselines over time and/or implementing replicable and scalable mitigation activities (UNFCCC 2022g, para. 14-17). The discussion on increasing the stringency of baselines over time was dominated by the BCF. There were concerns raised by some members on including BCF as an option as there was a lack of clarity on the link between BCF with increasing ambition. They argued that the BCF would not increase ambition because it only leads to the shifting of mitigation outcomes to the host country (which will thereby reach its NDC target more easily and may set a more stringent target when the NDC is due to be revised). However, other members stressed that not applying the BCF would significantly increase the risk of overselling. Discussions on the BCF also revolved around whether or not the concept impinges on national sovereignty. Some solutions explored included host country choices in determining the BCF and requiring the A6.4SB to approve the host country-determined BCF before its application.

Regarding **encouraging broad participation**, the discussion was focused on the stakeholder consultation. It was flagged that it is not only about the process but the application of the methodologies, which include the process, the approval, and the implementation. The status report (UNFCCC 2022g, para. 11) states that broad stakeholder participation should be encouraged during the methodology development process.

On the principle of **avoiding leakage where applicable**, the text was generally agreed by all members. However, some questions were raised in relation to the meaning of ‘achieved results of the Article 6.4 activities’ when it comes to the methodology requiring the activity participant to deduct unavoidable leakage from the ‘achieved results’ of the Article 6.4 activities. This was clarified in the subsequent iteration of the draft text as the emission reduction

achieved by the Article 6.4 activities. Other concerns included the target audience of the guidance (whether it is relevant for project developer or the A6.4SB) and the level of coherence with the removals guidance.

The text on the **alignment with the long-term temperature goals of PA** was again heavily contested by members. There was lack of clarity on the following:

- Alignment with NDCs and LT-LEDS at the national level vs the alignment with long-term goals of PA
- How activities inside and outside of the NDCs are related to the alignment with the long-term strategies
- How quantitative and qualitative approaches for the operationalisation of increasing ambition over time are applicable in the context of the principle of alignment with the long-term goals of the PA

On **additionality**, the link of additionality determination to the requirement in para 55c of the RMPs (contribution to the long-term goals of the Paris Agreement) was discussed at great length. Some A6.4SB members did not see its relevance with respect to additionality determination, while others did. In this context, it was stressed that more guidance on what “lock-in” means is required, also for developing positive lists. Some members stressed that lock-in should not be defined in a way that it is restrictive and prohibits Parties from developing their own national arrangements for reaching net-zero.

Despite an all-night session running until the morning of 6 November 2022, the A6.4SB failed to deliver on the key agenda item on methodological requirements due to widely diverging views and no clear compromise in sight. Table 2 specifies the outcomes of the discussion regarding each methodological principle and requirement at SB 003:

Table 2: Outcome of discussion on methodological requirements at SB 003

Principle/requirement	Outcome of discussions at SB 003
Encouraging ambition over time	The discussion was on quantitative (e.g., BCF, but going beyond that) vs qualitative approaches to the principle’s operationalisation. A compromise proposal was to allow choice between the two principal approaches, which can undermine environmental integrity. Eventually, no agreement could be reached.
Encouraging broad participation	Final draft text states only during the “methodology development/revision processes” (UNFCCC 2022g, para. 11).
Shall be real, transparent, conservative, credible and below business-as usual (BAU)	No substantial discussion took place here except that transparency would require more than describing data. It was suggested to add disclosure of data sources unless they are confidential.
Avoid leakage where applicable	The discussion was focused on the target public for this guidance. It was also discussed that further guidance for transboundary implications of activities is needed.

Principle/requirement	Outcome of discussions at SB 003
Recognising suppressed demand	A definition was agreed in the draft text and it is specified that the A6.4SB is to assess whether suppressed demand is applicable on a case-by-case basis (UNFCCC 2022g, para. 32).
Shall include relevant assumptions, parameters, data sources and key factors [...]	The draft text reflects some of the concerns raised at previous SB meetings, including the need of specific methodologies requirements in terms of performance rather than specification of a product, and that these requirements should be verifiable (UNFCCC 2022g, para. 46).
Contribute to equitable sharing of mitigation benefits between participating Parties	The link of the concept to the BCF was controversially discussed during the meeting. In the end, no agreement could be reached and multiple options were retained in the text.
Requirements on baselines	Since the discussion was focused on the BCF and its appropriateness in this context, it was suggested to include more flexible wording. The final draft text reflected this by stating that mechanism methodologies shall justify the appropriateness of the baseline setting approach choice and may apply a BCF as one option (UNFCCC 2022g, para. 56).
Additionality	The link of additionality determination to the requirement in para 55c of the RMP (contribution to the long-term goals of the Paris Agreement) was lengthily discussed. It was stressed that more guidance is needed on what “lock-in” means and that it should be kept in mind when developing positive lists. The final draft text reflected this by stressing that activity participants shall take a conservative approach that avoids locking in levels of emissions, and the A6.4SB may approve a list of technologies that are considered additional and thus serves as positive list (UNFCCC 2022g, para. 62,64).

Source: Authors

3.2. Recommendations for Article 6.4 activities involving removals

At SB 001, the A6.4SB considered the concept note “Removal activities under the Article 6.4 Mechanism”, which summarised how removals have been dealt with in carbon markets to date with a strong focus on land-based removal activities as compared to engineering-based removal activities. However, the list of removal activities presented in the concept note did not consider all types of removal activities. Moreover, members identified gaps regarding background and technical information about the activities. Therefore, the A6.4SB members requested the Secretariat to prepare an information note that provides technical information on elements in the mandate (Decision 3/CMA3, paragraph 6 (c)) with respect to each removal activity.

For SB 002, two documents were prepared for consideration by the A6.4SB. The first document developed by the informal working group on removals aimed to provide draft recommendations on removals. The draft recommendations covered the following specific issues mentioned in paragraph 6(c) of the decision 3/CMA.3, namely appropriate monitoring, reporting, accounting for removals and crediting periods, addressing reversals, avoidance of leakage,

and avoidance of other negative environmental and social impacts (UNFCCC 2022h). The second document was an information note prepared by the UNFCCC Secretariat containing technical information to support the work of the A6.4SB for the development of the recommendations on removal activities that will be forwarded to CMA.4 (UNFCCC 2022i).

The draft recommendations on removals were criticised by the A6.4SB at SB 002 on several fronts:

- The title and contents of the draft recommendations prepared by the working group would be inconsistent with the mandate by the CMA. The A6.4SB members pointed out that drafting requirements for the development and assessment of mechanism methodologies pertaining to activities involving removals was not its mandate but rather the mandate is to provide broader recommendations on activities involving removals. Any methodology-related aspect is to be discussed in the broader methodological guidance being developed by the A6.4SB (see section 3.1 above).
- The draft recommendations presented at the second meeting of the A6.4SB were very detailed and the A6.4SB questioned
 - whether the options presented in the paper were backed by sufficient in-depth analysis of the implications of the different choices.
 - whether innovative technologies or new methodologies that could be submitted sometime in the future would be excluded which should not be the case.
- It was noted that the document only refers to CO₂ removals. The scope was asked to be expanded to include GHG removals as well.
- Additionally, it was noted that the text only mentions carbon capture and storage (CCS) with regards to engineering-based removals and does not consider any other type of engineering-based removal activities.
- With regards to additional requirements to be met by land-based removal activities on addressing reversal,
 - the A6.4SB found that tonne-year accounting-based crediting was so deeply integrated in the draft recommendations text that it made it difficult to provide comments to the text as it would involve a complete re-writing of the text. The tonne-year option was not agreed by the A6.4SB.
 - the A6.4SB criticised the presentation of 'commercial insurance' as a standalone option for compensating reversals. In most cases, insurance is positioned as a back-up for insufficiency of buffer but not as an alternative.
 - the A6.4SB noted that despite there being no discussion on activity-specific vs pooled buffers, the options seem to give preference to activity-specific buffer.
- There was no mention of REDD+ activities and concepts such as activity nesting, integration with jurisdictional and national REDD+ strategies, monitoring systems, reference levels, REDD+ safeguards are absent in the document.
- The draft recommendations lacked inclusion of good practice. They ignore the decades of experience with removal activities in the carbon market space as well as the broader context of the UNFCCC.

Following these discussions, the informal working group on removals met again over the course of SB 002 to develop a second version of the draft recommendations, taking into account the input received from the full A6.4SB. It was agreed that a higher-level formulation of various options covering the full spectrum of removals is required even if it meant restructuring the entire text to present the options more clearly. This draft recommendation should also include the definition of a removal activity and how to classify an activity as removal activity. The second version of draft recommendations on removals were developed keeping in mind that these would be the foundation of the future work of the A6.4SB on removals.

Key features and reactions of A6.4SB members on the second version of draft recommendations are presented below (UNFCCC 2022j):

- The scope has been expanded to include removals of all GHGs addressed by the UNFCCC. Three definitions of removal activities were provided, including one of them being a definition from the IPCC AR6-WG III. However, there was no agreement on which definition fits best.
- Use of ‘carbon stocks’ throughout the text was seen as counterintuitive by members given that the scope has now been broadened to include removals of all GHG.
- Members noted a lack of clarity with regards to ‘monitoring’ and ‘estimation of uncertainty’ and how changes in carbon stocks will be estimated in a conservative manner in cases where uncertainty in estimates exceeds specified limits.
- Reversals concern both removals as well as emissions reductions when they involve storage of a GHG. Reversals thus need to be addressed in both contexts.

At the end of SB 002, no final decision was taken on the three documents presented. The informal working group continued its intersessional work on the draft recommendations for removal activities in the run-up to SB 003. Public comments received following a call for submissions by stakeholders on both versions of the draft recommendations as well as on the information were incorporated into the next iteration of the documents prepared by the Secretariat.

At SB 003, the A6.4SB developed recommendations on activities involving removals and forwarded it to the CMA (UNFCCC 2022g). The discussion on activities involving removals was as contested as the methodological requirement discussion. Eventually, members reached consensus on a severely slimmed down version of text. Many of the issues were deferred as relevant guidance that needed to be applied were still to be developed by the A6.4SB.

Regarding definitions in the agreed recommendations, a key crunch issue was the discussion on “**processes or outcome of processes**” to remove GHGs, as many were not familiar with this definition proposed by the Secretariat at a very late stage of the meeting, after the A6.4SB had actually already agreed on a definition that just referred to tCO_{2e}. The Secretariat’s definition that is not aligned with the one used by the IPCC.

Some issues also arose during the discussions on **durable storage**. The reference to durable storage in products was problematic for some A6.4SB members as some products are short-lived (e.g., chemicals). Additionally, whether ocean reservoirs can achieve durable storage is also very contentious.

With respect to **monitoring**, the reference to monitoring removals through estimation was contested and is considered inherently problematic. In this context, the use of conservative default values is mentioned but it remains to be seen how conservativeness is defined in the end. On addressing the risk of reversals, a stringent proposal stating that full compensation of reversals needs to be ensured was accepted.

A new term '**observed events**' was brought in that need to be recorded in monitoring **reports**. Many A6.4SB members did not understand this term 'observed events' and discussed who would actually observe these events.

Furthermore, the inclusion of 'simplified monitoring and reporting' was contested as it is formulated in a very open-ended manner. Finally, there was no agreement yet on the '**maximum timeframe**' within which initial and subsequent monitoring will be undertaken and monitoring reports submitted. A decision on this aspect will be absolutely crucial.

On **accounting** for removals, a key issue will be the definition of a **removal baseline** (e.g., what removals to include in it). Also, the term "**net removals**" was contested among A6.4SB members as there is no existing definition on it. The highly contentious issue on whether an activity involving removals also can generate **emission reduction credits** was deferred.

4. Other relevant outcomes of the A6.4SB meetings to date

In the following, the outcomes of the discussions at SB 001 and SB 002 on the levels of Share of Proceeds (SoPs) and capacity building needs are elaborated.

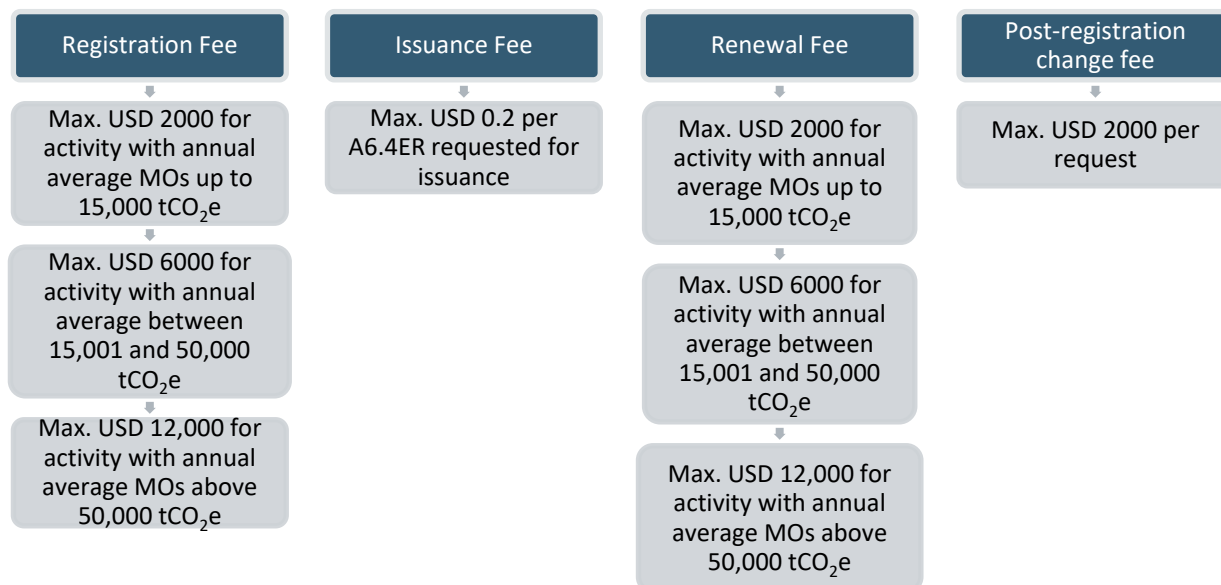
4.1. Structure and levels of Share of Proceeds

The discussions at SB 001 and SB 002 covered both the levels of SoPs for adaptation and SoPs for administrative expenses. The CMA requested the SB to elaborate and make recommendations on appropriate levels for the SoPs for administrative expenses and its operation including in order to enable a periodic contribution to the SoPs for adaptation for the Adaptation Fund (UNFCCC 2022k).

Regarding the monetary contribution related to the scale of the Article 6.4 activity or the number of A6.4ERs issued for adaptation purposes, at SB 002, the A6.4 SB agreed on a monetary contribution of **3% of each issuance fee paid for a request for issuance** which will then be collected and transferred annually to the Adaptation Fund. The A6.4SB also agreed that the modality and the level of the monetary contribution may be subject to review by the A6.4SB in the future based on implementation results.

Regarding the administrative SoPs, a series of scenarios were discussed in the last two meetings, whereby varying rates were proposed considering the different stages of the project cycle, lessons learned from previous mechanisms such as the CDM and first estimations of the budget needs. As a result, the administrative SoPs recommended by the A6.4SB are composed by four different fees (see Figure 2): a registration fee with tiers defined by annual average emission reductions or removals (mitigation outcomes, MO) over the (first) crediting period, an issuance fee per A6.4ER, a crediting period renewal fee applying the same tiers as the registration fee and a post-registration change fee (UNFCCC 2022l). The levels specified are maximum thresholds, the actual levels remain to be decided in a future meeting of the A6.4SB.

Figure 2: Recommended administrative fees



Source: Authors based on UNFCCC 2022l

The approach taken by the A6.4SB members about starting with a maximum level fee was decided to allow to decrease the fee in case the real budget needs are lower than currently expected. Given the non-price competitive nature of the mechanism, an accurate review about the expected expenditures and budget needs is expected to determine if the already defined levels will be sufficient for the financial sustainability of the mechanism.

At COP27, the CMA noted the levels of SoP for administrative expenses and recognised that they are to be reviewed periodically to ensure smooth operation of the A6.4SB, as well as for enabling a periodic contribution of funds to the Adaptation Fund (UNFCCC 2022n, para. 13-14). Additionally, the A6.4SB will determine a specific level for each fee type, when developing procedures for processing requests in the activity cycle under the A6.4M, ensuring that the fee levels are low where appropriate.

4.2. Capacity building work programme on Article 6.4

At SB 002, the A6.4SB discussed the capacity building programme proposed by the Secretariat. The respective information note summarised the feedback provided by stakeholders, through various channels pertaining to capacity-building needs, priorities and challenges (UNFCCC 2022m).

Four major topics were identified as priorities to support Article 6 implementation such as the registry set-up, legal institutional arrangements (including reporting), avoidance of double counting and alignment with the long-term trajectory (including guidance on corresponding adjustment methodologies), and ambition that encompasses compliance of cooperative approaches and assistance to Parties to understand benefits and risks of Article 6 approaches (UNFCCC 2022m).

The A6.4SB determined that the programme needs to be more country-driven (UNFCCC 2022m). Therefore, meaningful capacity-building activities would need to be identified and

tailored to address the specific needs of each country, along with appropriate timelines. Since host countries are at various stages of preparedness and the A6.4SB should focus its capacity building efforts on enhance the institutional arrangements and the technical capacities to design baselines at national level, the role of regional collaboration centres (RCCs) in implementing the capacity-building programme will be crucial and needs to be closely coordinated with the A6.4SB.

The A6.4 SB highlighted the need to consider some indicators to demonstrate the capacity-building progress to the CMA. This was crosslinked with the necessity of having a clarification of the real budget for capacity building needed for the A6.4M and its relationship with capacity-building necessities at global scale.

5. Recommendations for the upcoming SB meetings in 2023

In 2023, the A6.4SB will have to address a vast number of issues in five meetings. The spacing of these meetings, with a slow start in March and an accumulation of meetings in the mid-year (see Figure 1) is challenging given the Article 6 work programme and the sessions of the Subsidiary Bodies in June 2023 requiring substantial attention from A6.4SB members as well. This generates the risk that some elements of the workplan will not be completed. In the following, recommendations are derived from the discussion in this paper and from inputs raised during CMM-WG workshops in the last six months.

On the general 2023 workplan:

- As specified, the workload for 2023 will be heavy, not to mention the additional mandates that have been added through the CMA.4 decision. Therefore, the A6.4SB should spend sufficient time at SB 004 to identify issues that will need to be prioritised. Discussion on issues that are heavily contested such as the recommendations on methodological requirements and activities involving removals, could be pushed to at least until SB 005 to allow for input through the submission portal (for removals) or through the structured public consultation process (both), work by the experts selected under the roster and the members' consideration of such input.
- At SB 003 and CMA.4 it has become clear that many A6.4SB members and Parties wish for a better structured input process into the Body's work. The A6.4SB should, therefore, ensure that a concept for such structure public consultation processes is presented and elaborated on at SB 004 by the Secretariat.

On the development of recommendations for the application of methodological requirements:

- At SB 002 and SB 003 it became clear that some concepts like the BCF are particularly contested. In this case, a step back might help as the application of more stringent baselines was generally not contested by A6.4SB members. Experts selected from the roster should be asked to develop different types of alternatives to ensure that baselines contribute to ambition and are aligned with the long-term goal of the Paris Agreement. These alternatives should be laid down clearly and their advantages and disadvantages discussed in detail.

- For some principles, some initial text has already been agreed upon like for example on additionality. However, the text needs to become more specific in 2023, which traditionally generates new challenges (e.g., guidance on the development of positive lists).

On the development of recommendations for activities involving removals under the A6.4M

- At COP27, it became clear that Parties and non-state actors considered the following aspects as highly problematic in the text forwarded to the CMA: the unusual character of the definition and the lack of links to previous, generally accepted definitions like that of the IPCC, inclusion of ocean reservoirs, lack of differentiation between different types of removals and the different risks to permanence, lack of specification on human rights, reversals, and safeguards. Against this background and given the heavy criticism by many non-state actors, the A6.4SB should carefully assess all the feedback received including through the submission portal in the aftermath of SB 004, and ensure that previous experience under the UNFCCC, particularly the CCS guidance under the CDM with its very detailed provisions regarding monitoring and liability, is taken into account.
- Many Parties suggested a combined effort on methodological and removals considerations by the A6.4SB. This was not reflected in the decision text but it makes sense to keep on discussing both issue items in close coordination.

On the capacity building work programme

- The calls by developing country Parties at COP27 made it clear that the capacity building programme will need to be expedited. Therefore, the A6.4SB should start engaging with Regional Collaboration Centres (RCCs) to identify the capacity-building needs by countries related to already adopted decisions. Besides, the CDM transition procedure should be developed in close coordination with host countries to ensure that it is straightforward and easily implementable.

References

- Carbon Pulse (2022): Significant work remains following first Article 6.4 Supervisory Body meeting. August 2022. <https://carbon-pulse.com/168250/> (accessed 13 October 2022)
- Michaelowa, Axel; Michaelowa, Katharina; Hermwille, Lukas & Espelage, Aglaja (2022): Towards net zero: making baselines for international carbon markets dynamic by applying ‘ambition coefficients’, Climate Policy, DOI: 10.1080/14693062.2022.2108366.
- UNFCCC (2022a): Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement. Decision 3/CMA.3. FCCC/PA/CMA/2021/10/Add.1. https://unfccc.int/sites/default/files/resource/cma2021_10a01E.pdf (accessed 11 October 2022)
- UNFCCC (2022b): Information note: Workplan of the Supervisory Body 2022–2023. Version 01.0. A6.4-SB002-A02. <https://unfccc.int/sites/default/files/resource/a64-sb002-a02.pdf> (accessed 11 October 2022)
- UNFCCC (2022c): Draft annual report of the Supervisory Body to the CMA. Version 01.0. A6.4-SB002-AA-A01. https://unfccc.int/sites/default/files/resource/a64_sb002_aa_a01.pdf (accessed 11 October 2022)
- UNFCCC (2022d): Concept note: Guidelines for the implementation of methodological principles, approaches and methods for the establishment of baseline and additionality. Version 01.0. A6.4-SB001-AA-A06. <https://unfccc.int/sites/default/files/resource/a64-sb001-aa-a06.pdf> (accessed 12 October 2022)
- UNFCCC (2022e): Draft Recommendation: Requirements for the development and assessment of mechanism methodologies. Version 01.0. A6.4-SB002-AA-A07. <https://unfccc.int/sites/default/files/resource/a64-sb002-aa-a07.pdf> (accessed 12 October 2022)
- UNFCCC (2022f): Information note: Requirements for the development and assessment of mechanism methodologies. Version 01.0. A6.4-SB002-AA-A08. <https://unfccc.int/sites/default/files/resource/a64-sb002-aa-a08.pdf> (accessed 12 October 2022)
- UNFCCC (2022g): Information note: Status of current work on the application of the requirements referred to in chapter V B (Methodologies) of the rules, modalities and procedures. Version 01.0. A6.4-SB003-A04. <https://unfccc.int/sites/default/files/resource/a64-sb003-a04.pdf> (accessed 12 December 2022)
- UNFCCC (2022h): Draft Recommendation: Requirements for the development and assessment of mechanism methodologies pertaining to activities involving removals. Version 01.0. A6.4-SB002-AA-A05. <https://unfccc.int/sites/default/files/resource/a64-sb002-aa-a05.pdf> (accessed 11 October 2022)
- UNFCCC (2022i): Information note: Removal activities under the Article 6.4 mechanism. Version 01.0. A6.4-SB002-AA-A06. <https://unfccc.int/sites/default/files/resource/a64-sb002-aa-a06.pdf> (accessed 11 October 2022)
- UNFCCC (2022j): Draft Recommendation: Recommendations for activities involving removals under the Article 6.4 mechanism. At meeting version. <https://unfccc.int/sites/default/files/resource/a64-sb002-aa-a05-22092022.pdf> (accessed 11 October 2022)
- UNFCCC (2022k): Concept note: Share of proceeds under the mechanism established by Article 6, paragraph 4, of the Paris Agreement. Version 01.0. A6.4-SB001-AA-A04. <https://unfccc.int/sites/default/files/resource/a64-sb001-aa-a04.pdf> (accessed 11 October 2022)
- UNFCCC (2022l): Recommendation: Appropriate levels of the share of proceeds for administrative expenses and its operation. Version 1.0. A6.4-SB002-A03. <https://unfccc.int/sites/default/files/resource/a64-sb002-a03.pdf> (accessed 11 October 2022)

Progress achieved by the Article 6.4 Supervisory Body on relevant mandates in 2022
CMM-WG

UNFCCC (2022m): Information note: Capacity-building work programme on Article 6.4. Version 01.1 A6.4-SB002-AA-A09 <https://unfccc.int/sites/default/files/resource/a64-sb002-aa-a09.pdf> (accessed 11 October 2022)

UNFCCC (2022n): Guidance on the mechanism established by Article 6, paragraph 4, of the Paris Agreement (Advance unedited version), https://unfccc.int/sites/default/files/resource/cma4_auv_14_PA6.4.pdf (accessed 13 December 2022)

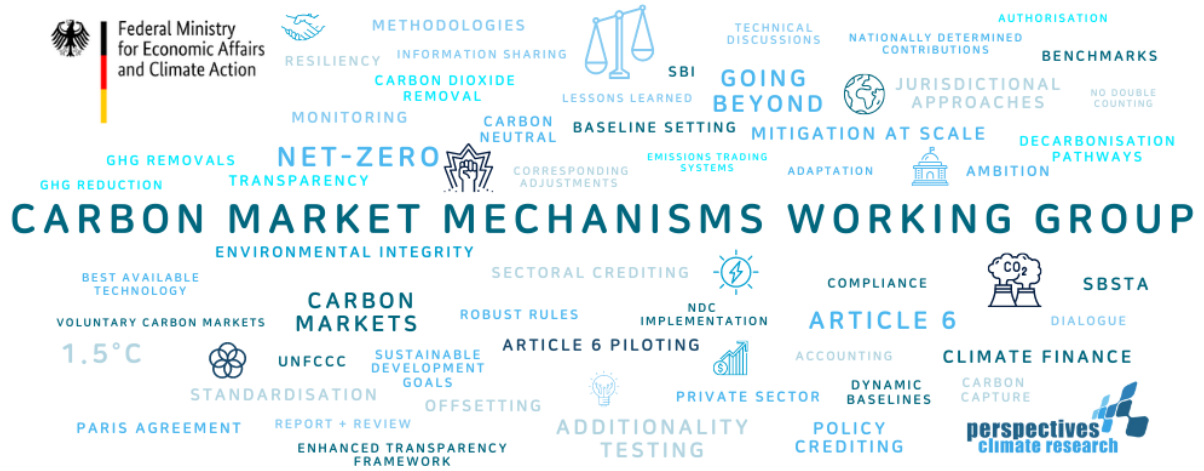
Annexes

Annex A: A6.4SB members

Name	Country
MBAYE DIAGNE	Senegal
<i>TIRIVANHU MUHWATI (Alternate)</i>	<i>Zimbabwe</i>
MKHUTHAZI STELEKI	South Africa
<i>ALICK MUVUNDIKA (Alternate)</i>	<i>Zambia</i>
MARIA ALJISHI	Saudi Arabia
<i>DUAN MAOSHENG (Alternate)</i>	<i>China</i>
KAZUHISA KOAKUTSU	Japan
<i>RAJASREE RAY (Alternate)</i>	<i>India</i>
OLGA GASSAN-ZADE	Ukraine
<i>MAIA TSKHVATADZE (Alternate)</i>	<i>Georgia</i>
PIOTR DOMBROVICKI	Poland
<i>IMRE BANYASZ (Alternate)</i>	<i>Estonia</i>
CHARLES HAMILTON	Bahamas
<i>DERRICK ODERSON (Alternate)</i>	<i>Barbados</i>
FELIPE DE LEON	Costa Rica
<i>EDUARDO WILLIAMS CALVO BUENDIA (Alternate)</i>	<i>Peru</i>
MARTIN HESSION	Ireland
<i>EMILY MATHIAS (Alternate)</i>	<i>New Zealand</i>
MOLLY PETERS-STANLEY	US
<i>SIMON FELLERMEYER (Alternate)</i>	<i>Switzerland</i>
KRISTIN QUI	Trinidad and Tobago
<i>BENEDICT CHIA (Alternate)</i>	<i>Singapore</i>
GEBRU JEMBER	Ethiopia
<i>MANJEET DHAKAL (Alternate)</i>	<i>Nepal</i>

Annex B: Informal working groups

On Methodologies	On Removals
Maria AlJishi	Maria AlJishi
Manjeet Dhakal	Imre Bányász
Felipe De León Denegri	Benedict Chia
El Hadji Mbaye Diagne	El Hadji Mbaye Diagne
Simon Fellermeier	Simon Fellermeier
Olga Gassan-zade	Olga Gassan-zade
Martin Hession	Martin Hession
Kazuhisa Koakutsu	Kazuhisa Koakutsu
Emily Mathias	Emily Mathias
Molly Peters-Stanley	Molly Peters-Stanley
Rajasree Ray	Rajasree Ray
<i>Secretariat staff</i>	Gebru Jember
	<i>Secretariat staff</i>



Perspectives Climate Research gGmbH

Hugstetter Str. 7 | 79106 Freiburg | Germany

info@perspectives.cc | www.perspectives.cc