

A6.4 SBM MEETING REPORT

A6.4-SBM 013
15 – 18 July 2024



Disclaimer

This report represents the author's personal observations and views. Its contents have neither been coordinated with the German government, nor do they reflect the standpoint of the Wuppertal Institute.

The report is produced as part of the CarbonMechanisms project, conducted by Wuppertal Institute on behalf on the German Ministry for the Economy and Climate Action.

Website

www.carbon-mechanisms.de/en

Contact

Christof Arens

Tel. +49-(0)202-2492 170

Email: christof.aren@wupperinst.org

Wuppertal Institut für Klima, Umwelt, Energie GmbH

Döppersberg 19 • 42103 Wuppertal

www.wupperinst.org

Cover photo: UN Climate Change / Flickr / CC BY-NC-SA 2.0

Report

Article 6.4 Mechanism Supervisory Body Thirteenth Meeting

15 – 18 July 2024

Christof Arens

Summary

- The Supervisory adopted the project cycle framework for Programmes of Activities, comprising the activity standard and procedure as well as validation / verification standard. The final drafts had been reviewed by stakeholders earlier. One change that the SBM newly introduced at the meeting is that transboundary impacts of PoAs / CPs need not to be considered when applying the sustainable development tool.
- Regarding SD assessment, the Supervisory Body reviewed a new draft for the Sustainable Development tool, developed on the basis of a public call for inputs particularly from DOEs, consultations with the SB's informal group on the matter, and a legal review. Changes included a new definition of child labour, improved text on preventing corruption, revisions to the Human rights section, and improvements to facilitate the auditing process. The SB did not approve the draft, because SBM members claimed that the relation between individual host party regulations and the application of international law and / or minimum standards in the safeguards section was not clear enough. Many members also felt uncomfortable with inconsistencies in the use of terminology and should vs. shall requirements. A small group of members will work between meetings, and a new version will be presented at the next meeting.
- On the methodologies requirements and removal guidance, the SBM discussed the inputs from SB060 in Bonn as well as written stakeholders inputs. The secretariats had drafted two new text version along with a comprehensive analysis of the inputs. In order to move forward, the SBM agreed on a trifold approach: the secretariat is to develop three different documents: two new versions of the recommendations regarding methodologies and removals, complemented by one "high level" document, explaining the work done by the SBM so far since Dubai, what it plans to do next year, and which lays out areas where the SBM seeks guidance from CMA on. This document is intended to facilitate the deliberations at the Baku COP so that Parties can focus on overarching policy questions, as opposed to technical work remaining at SBM or MEP level. According to the SBM chair, this approach also serves the purpose to get a clear and specific mandate from the CMA for the SBM on how to move forward. On the other hand, this would imply deferring final decisions in this regard to COP30 at the earliest.
- The body also revised the transition procedure. In order to provide more flexibility for multi-country PoAs, multi-country PoAs can now transition if at least one host Party provides approval (and not all as previously). The transition is limited to the CPAs in the respective host country. A phased CPA transition in batches is now possible after the respective approval.
- Regarding the registry, the SBM reviewed new draft text by the secretariat. The body members discussed the draft and requested the secretariat to further develop the text with particular attention to account types and purposes, implications of multiple accounts, the level of transparency of account holdings, and more. An editorial review shall ensure consistency with agreed decisions is to be undertaken. The SBM also tasked the secretariat with further developing the terms and conditions for entities using the registry.
- The dates of the next SBM meeting still have to be confirmed, it is going to take place between 30 September to 8 October, possibly in Baku.

Contents

- Governance and management matters 1**
 - Panels and Working Groups 1*
 - Report of the Methodological Expert Panel.....1
 - Establishing Designated national authorities (DNAs)1
- Development of the regulatory framework 2**
 - PoA framework.....2*
 - Transition Procedure.....3*
 - SD Tool3*
 - A6.4 mechanism registry5*
 - Meths & Removals6*
 - Guidance for host countries7*

Governance and management matters

Panels and Working Groups

Report of the Methodological Expert Panel

The chair of the Methodological Expert Panel (MEP), Mbaye Diagne, reported on the second meeting of the panel. The MEP has prioritized work on developing standards and tools, and is currently working on

- A standard on baseline-setting
- A standard on additionality demonstration
- A standard on addressing leakage
- A standard on non-permanence / reversals

Further prioritized work includes a concept note on large-scale crediting programmes and revising CDM methodologies on grid-connected renewables, waste management, and clean cooking¹.

The SBM members welcomed the report and discussed, among other things, concerns about the hierarchy of decision making and overlaps with the SBM's work on requirements for methodologies, especially regarding additionality assessment.

The MEP chair made clear that the work on additionality is focused on technical issues relevant for application in methodologies. This work will result in a standard or a tool relevant for the concrete work of activity participants.

In parallel, the MEP is currently developing recommendations on operationalizing addition-

ality which could become relevant for the SBM's work on overarching policy issues on methodologies; this input will be finalized on time so that SBM members can consider it in time before taking decisions in this regard. Again, the focus will be on technical issues, while the policy level questions remain on the level of the SBM anyhow. The MEP chair also underlined that the MEP is only giving advice to the SBM and cannot take decisions on its own.

Establishing Designated National Authorities (DNAs)

The SBM took note that 86 DNAs have been established by now. Five countries submitted information on the fulfilment of the host Party participation requirements.

¹ Download the MEP 002 report at <https://unfccc.int/process-and-meetings/bodies/constituted-bodies/article-64-supervisory-body/mep/meetings>

Development of the regulatory framework

PoA framework

The Supervisory Body considered the draft project cycle framework for Programmes of Activities. This package includes

- draft procedure “Activity cycle procedure for programmes of activities”;
- draft standard “Activity standard for programmes and activities”;
- draft standard “Validation and verification standard for programmes of activities”

Upon request by the body, the secretariat had collected feedback from stakeholders on earlier drafts and had received comments on, among other things, host party approval rules, design and registration of PoA, post-registration changes, implementation and monitoring, as

well as issuance. Issues included ways to enable host Parties to establish their specific requirements for approval and to consider other host Party approvals; clarifying if the SBM may register a PoA if host Party approval is not obtained; or missing requirements on post-registration changes that may result in the increase of the max annual number of ERs (and respective provisions for validation and verification).

The secretariat also suggested a fee scheme, with

- USD 10,000 for registering a PoA
- USD 800 for including a CP
- USD 1,500 for post registration changes
- USD 0.15 per ER request for issuance

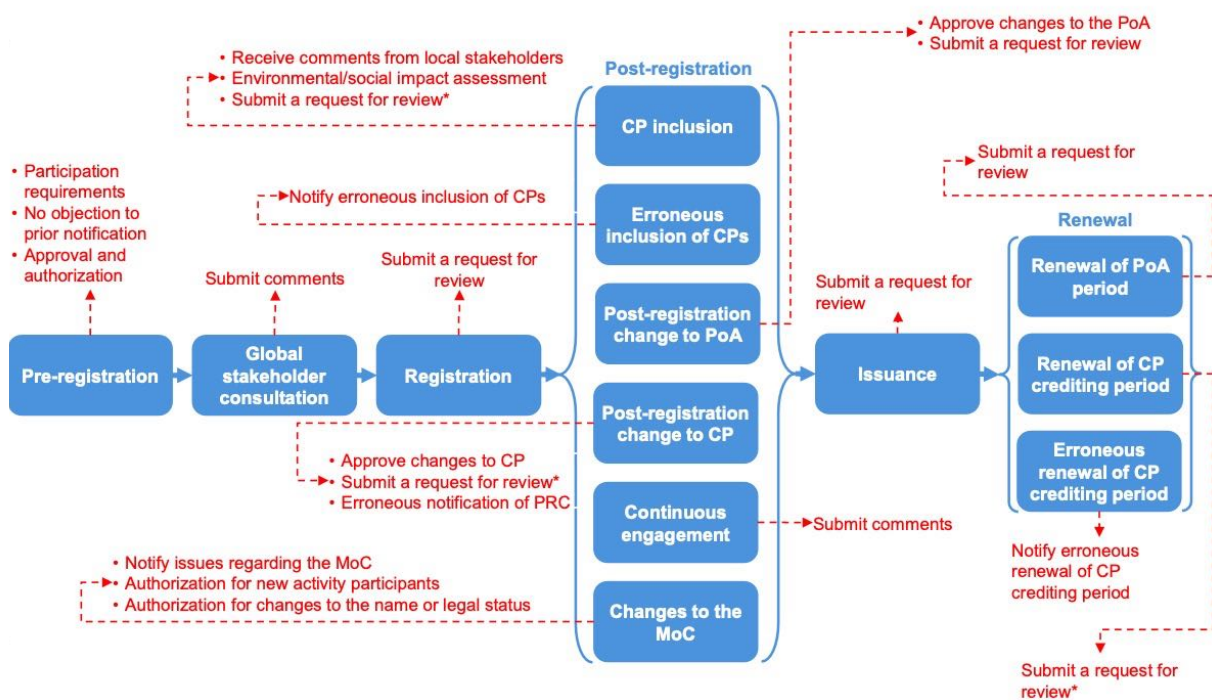


Figure 1: Host Party roles in the PoA activity cycle. Source: UNFCCC

These figures take into account the maximum fees set by the CMA in its decision 7/CMA.4.

The SBM members welcomed the drafts and suggested only slight changes, mainly of editorial nature. Regarding SD assessment, the SBM ruled that transboundary impacts of PoAs / CPs need not to be considered and clarified that the SD tool needs to be applied *during the implementation and operation of the CP* (and not after). Any remaining inconsistencies regarding terminology and cross-references will be solved by the end of this year when a major review in this regard will be undertaken by the secretariat. The SBM thus adopted the PoA package.²

Transition Procedure

The SBM revised its procedure for transitioning CDM activities to the Art. 6.4 mechanism. The main driver of the revision was that issues regarding multi-country PoAs had arisen. Of 119 PoA transition requests received by the SBM, 20 refer to multi-country PoAs. The transition procedure so far requests that all host Parties of the programme shall submit an approval of the transition. This approval has to be provided by 31 December 2025 as per the RMPs.

This creates uncertainty for multi-country PoAs, as timing for host Party approval might vary, with some Parties being reluctant or inactive given the current situation. Also, only five Parties have submitted complete information of participation requirements in the mechanism so far.

In order to provide more flexibility, the SBM therefore decided to allow the transition of a multi-country PoA if at least one host Party provides approval. The transition is limited to the CPAs in the respective host country. A phased CPA transition in batches is now possible after the respective host Parties provide approval,

while the ultimate deadline of 31 December remains unchanged. The revision also covers improvements to the provisions for revising and withdrawing a transition request³.

SD Tool

The Supervisory Body reviewed a new draft for the Sustainable Development tool, developed on the basis of a public call for inputs particularly from DOEs, consultations with the SB's informal group on the matter, and a legal review. Changes include a new definition of child labour, improved text on preventing corruption, revisions to the Human rights section, and improvements to ease the work of auditors, such as replacing the term "significant" which DOEs claimed is difficult to assess. Apart from editorial improvements, two diagrams were introduced to guide applicants of the tool.

The SB members welcomed the improvement, but were hesitant to approve the current version. Among other things, many claimed that the relation between individual host party regulations and the application of international law and / or minimum standards in the safeguards section was not clear enough. Safeguarding selected principles could thus be made difficult to ensure. Other members demanded more clarity on the consequences if a principle cannot be complied with.

Many members also felt uncomfortable with inconsistencies in the use of terminology and should vs. shall requirements. Also, some criticized that principles and criteria were not separated clearly from each other, hampering the application and making the structure of the steps to be taken unclear. Finally, body members wished to see the respective assessment forms that activity participants are going to use when

² Download the PoA documentation at <https://unfccc.int/sites/default/files/resource/A6.4-SBM013-A02.pdf> (ACP), <https://unfccc.int/sites/default/files/resource/A6.4->

[SBM013-A03.pdf](https://unfccc.int/sites/default/files/resource/A6.4-SBM013-A03.pdf) (AS), <https://unfccc.int/sites/default/files/resource/A6.4-SBM013-A04.pdf> (VVS)

³ Download the revision procedure at <https://unfccc.int/sites/default/files/resource/A6.4-SBM013-A01.pdf>

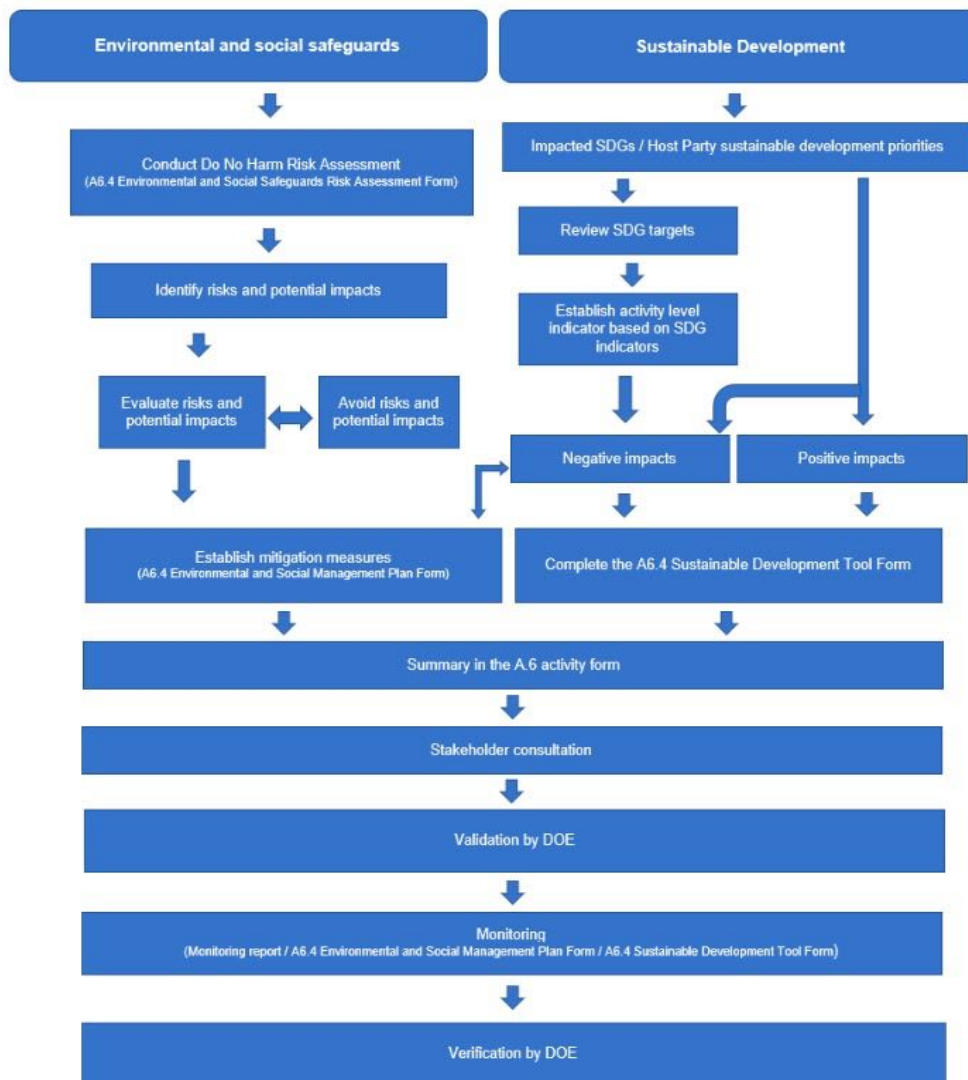


Figure 3: Art. 6.4 Sustainable Development tool: overview of application steps of the tool. Source: UNFCCC

applying the tool; without knowledge how these would look like they felt uneasy to adopt the tool.

During the meeting, members of the small informal group worked on selected improvements, which were endorsed by the SBM at the end of the session⁴. However, some issues regarding the international law vs. national regulation controversy could not be solved. The main changes made at the meeting include:

- A new paragraph “General steps for SD Tool implementation”
- Revisions to the sections “normative references” and “definitions” in the safeguards section.
- A streamlined safeguard principles / criteria chapter
- A flow chart displaying the main steps to be taken when applying the tool (cp. Figure 3)
- A reference stating the tool’s assessment forms will be based on the tool’s appendix,

⁴ Download the new version at <https://unfccc.int/sites/default/files/resource/A6.4-SBM013-A05.pdf>

in order to have more control on what the forms will contain.

The small group is going to work between the meetings and present a final proposal at the next meeting with a view to approving the SD tool then.

A6.4 mechanism registry

The body also discussed the registry procedure. The secretariat had revised the first draft according to feedback from the SBM, including a fee structure and transaction rules. The current version also includes flow chart of the transactions, provisions for real-time transparency of publicly accessible information, and options for opening multiple accounts. Authorized A6.4 ERs are now called AERs.

Regarding fees, the secretariat proposed the following structure:

- An opening fee of USD 500 for the first account, and USD 800 for the second and subsequent accounts
- An annual account maintenance fee of USD 400

Party accounts are exempted from all account opening fees as are activity participant account holders when opening their first account. Further fees, for example connecting registries are still to be determined.

The body members discussed the draft and requested the secretariat to further develop the text with particular attention to:

- Account types and purposes
- Implications of multiple accounts

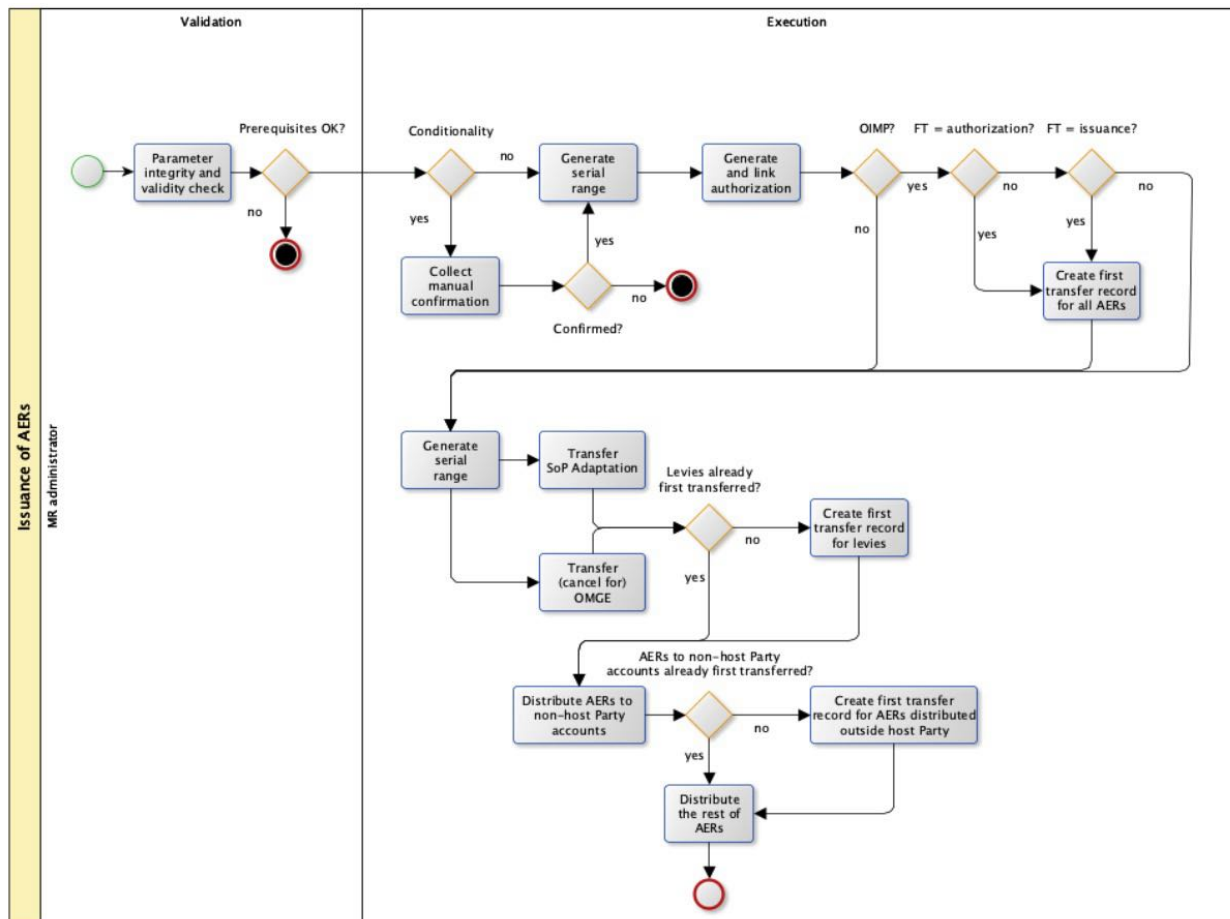


Figure 4: Issuance of Authorized A6.4ERs (AERs). Source: UNFCCC

- issues of ownership or control and security interests
- suspending accounts
- the level of transparency of account holdings
- serialization of A6.4ERs and approaches for emission reduction tagging

Furthermore, an editorial review ensuring consistency with agreed decisions is to be undertaken. The SBM also tasked the secretariat with further developing the terms and conditions for entities using the registry.

Requirements for mechanism methodologies and work related to removals

The SBM discussed the two overarching guidance documents on methodologies and removals after the interaction with Parties at SB 060 in Bonn. The secretariat had compiled the inputs from Parties and non-Party stakeholders at the SB session, as well as updated information notes on the two topics. Moreover, the secretariat had developed revisions of the guidance documents approved by the SBM before the Dubai CMA session based on the inputs mentioned above.

The SBM considered the two new draft guidance documents at length⁵ and discussed options and text proposals developed by the secretariat. While in some areas slight progress was visible, the body remains split in many areas of both methodological questions as well for the removals guidance. Members discussed, for example, how to phrase text that operationalizes the RMP requirement “encouraging ambition over time”. Views not only differed on replacing the term “ensure” by “encourage” as suggested by some stakeholders, but also on the overall framing “total creditable amount of emission reductions”

used in the SBM’s 2023 recommendations text to the CMA, because some members and stakeholders saw difficulties applying it to carbon removals.

Regarding removals, the body, among other things, was able to narrow down the options on accounting for removals from three to two. The secretariat is going to rephrase the options, so that they are better comprehensible and therefore easier to compare and discuss.

An overall question that is unanswered is whether the requirements for methodologies apply in their entirety to the removals guidance or not. Yet SBM 012 did not take any decisions away, but the feedback was collected by the secretariat, which will present revised drafts at the next SBM session in October.

In order to move forward, the SBM agreed on a trifold approach: the secretariat is to develop three different documents:

- two new versions of the recommendations regarding methodologies and removals
- complemented by one “high level” document, explaining the work done by the SBM so far since Dubai, what it plans to do next year, and which lays out areas where the SBM seeks guidance from CMA on. This document is intended to facilitate the deliberations at the Baku COP so that Parties can focus on overarching policy questions, as opposed to technical work remaining at SBM or MEP level

According to the SBM chair, this approach also serves the purpose to get a clear and specific mandate from the CMA for the SBM on how to move forward. On the other hand, this would imply deferring final decisions in this regard to COP30 at the earliest.

⁵ View the methodologies text at [https://unfccc.int/sites/default/files/resource/a64-sbm013-aa-](https://unfccc.int/sites/default/files/resource/a64-sbm013-aa-a11.pdf)

[a11.pdf](https://unfccc.int/sites/default/files/resource/a64-sbm013-aa-a11.pdf), while the removals text can be found at <https://unfccc.int/sites/default/files/resource/a64-sbm013-aa-a12.pdf>

Guidance for host countries

Last not least, the body discussed roles and responsibilities of host Parties. Based on previous input, the secretariat had prepared a manual for host Party participation in the mechanism, outlining requirements for participation, methodological roles, responsibilities in activity approval, as well as reporting and review tasks⁶.

The body members welcomed the draft and underlined the importance for DNAs, which have a much bigger role in the mechanism as compared to the CDM. The SBM requested the secretariat to turn the text into a user-friendly manual, keeping in mind that it will be a living document, which will be developed further. The secretariat was tasked to pay specific attention to clearly separating roles from responsibilities of host Parties.

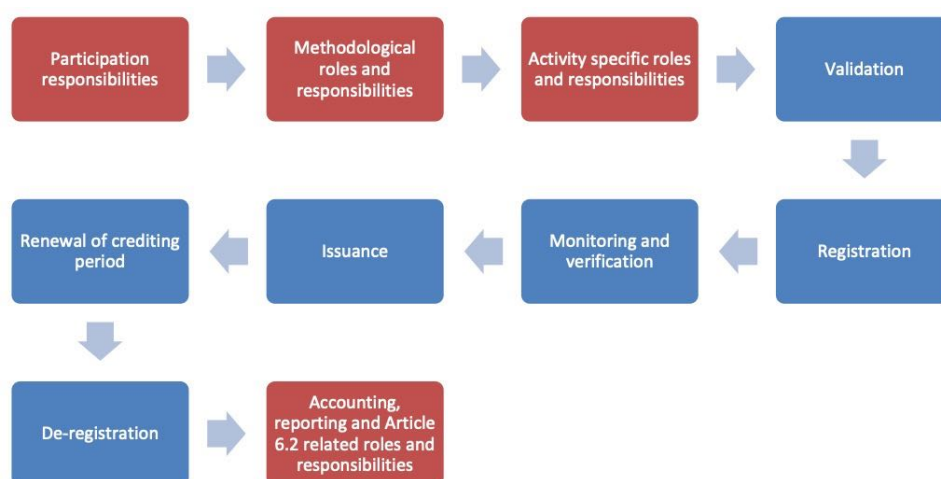


Figure 5: Roles and responsibilities of host Parties; Source: UNFCCC

⁶ View the draft manual at <https://unfccc.int/sites/default/files/resource/a64-sbm013-aa-a03.pdf>

Wuppertal Institute

for Climate, Environment and Energy

P.O. Box 100480

42004 Wuppertal

GERMANY

www.wupperinst.org

