

**A6.4-SB002-AA-A04**

## Information note

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Analysis on the structure and levels of share of proceeds for administrative expenses under the Article 6.4 Mechanism

Version 01.0



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## 1. Procedural background

1. Following the request of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), through its decision 3/CMA.3, paragraph 6(b),<sup>1</sup> the Supervisory Body, at its first meeting (SB 001), considered the concept note “Share of proceeds under the mechanism established by Article 6, paragraph 4, of the Paris Agreement”, as contained in annex 4 to the annotations of that meeting.<sup>2</sup> The Supervisory Body agreed on the following approaches, noting that there are other issues that still need to be discussed:
  - (a) The registration fee is to be set as a fixed fee to be consumed at registration. The fee levels are to be multitiered by the scale of the activities or another factor;
  - (b) The issuance fee is to be set as a levy proportional to the amount of Article 6, paragraph 4, emission reductions (A6.4ERs) requested for issuance, the rate of which may be differentiated by the scale of the requested amount of A6.4ERs or another factor;
  - (c) The fees are to be charged for renewal, post-registration change and inclusion of a component project activity in a registered programme of activities (PoA);
  - (d) No fees are to be charged for activities in the least developed countries (LDCs) and small island developing States (SIDS);
  - (e) The fees are to be paid when the requests are submitted, noting that flexibility in the timing of the payment may be needed under certain circumstances;
  - (f) The level and frequency of a periodic contribution from the remaining funds received from share of proceeds for administrative expenses to the Adaptation Fund are not to be decided at this stage, and the status of the funds is to be reviewed annually to determine them.
2. The Supervisory Body requested the secretariat to provide information at SB 002 that would help the Supervisory Body determine appropriate structure and levels of the fees to be charged under the mechanism (the Article 6.4 Mechanism) with a view to forwarding the recommendation on the matter to the CMA at its fourth session (CMA 4) for its consideration and adoption. The information will include an analysis of potential amount of funds to be raised and other comparative data and estimates of administrative costs for the Article 6.4 Mechanism to be covered by the share of proceeds for administrative expenses based on the experience under the CDM.

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<sup>1</sup> See decision 3/CMA.3 contained in the document FCCC/PA/CMA/2021/10/Add.1 available at: <https://unfccc.int/documents/460950>.

<sup>2</sup> The documentation of the first meeting of Article 6.4 Supervisory Body available at: <https://unfccc.int/event/Supervisory-Body-1>.

## 2. Purpose

3. The purpose of this information note is to provide analyses of:
  - (a) Estimates of potential resource needs for the operation of the Article 6.4 Mechanism;
  - (b) Potential funds that may be raised from the share of proceeds for administrative expenses for the Article 6.4 Mechanism under different scenarios of fee structures and levels.

## 3. Key issues

### 3.1. Resource needs for the operation of the Article 6.4 Mechanism

4. Resource needs for supporting the operation of the Article 6.4 Mechanism depend on various factors, including:
  - (a) The design of the processes to operationalize the Article 6.4 Mechanism, including the activity cycle process, registry system, accreditation process, methodology development process (i.e. the more complex the processes are, the more resources would be required);
  - (b) The number of activities requesting for registration, issuance, renewal, post-registration change, etc. under the Article 6.4 Mechanism activity cycle;
  - (c) The frequency and the intensity of functioning of the governance structure (e.g. the number of meetings of the Supervisory Body and its support structure);
  - (d) The frequency and the intensity of other relevant activities, including public communication (e.g. website development and maintenance), data management, stakeholder interactions and capacity building.
5. In the absence of the information on any of the above factors at this stage of the Article 6.4 Mechanism, the actual administrative expenditure for the CDM in the past could be a reference point when considering the resource needs for the Article 6.4 Mechanism due to certain similarity between the mechanisms. The total administrative expenditure for the CDM from its inception until the end of 2020 was USD 345.3 million, during which a total of 8,166 activities were registered (including 361 PoAs) of which 3,471 activities proceeded with issuance resulting a total of 2.2 billion CERs issued.

### 3.2. Potential funds raised by the share of proceeds for administrative expenses

6. For the purpose of this information note, a few scenarios of the fee structure and levels are created in addition to those proposed at the first meeting of the Supervisory Body (SB 001) contained in the concept note referred to in paragraph 1 above, as shown in Table 1 below.

**Table 1. Scenarios of fee structures and levels (USD) of the share of proceeds for administrative expenses**

Scenario	SB 001 proposal	Alternative scenario 1	Alternative scenario 2	Alternative scenario 3	CDM
<b>Registration fee</b>					
up to 15,000 tCO <sub>2</sub> e	10,000	1,000	1,500	2,000	N/A
15,001-50,000 tCO <sub>2</sub> e	20,000	4,500	5,000	6,000	0.20 per tCO <sub>2</sub> e
above 50,000 tCO <sub>2</sub> e	30,000	9,000	10,000	12,000	
<b>Issuance fee</b>					
up to 15,000 credits per year	0.10 or 0.20 per A6.4ER	0.10 per A6.4ER	0.15 per A6.4ER	0.20 per A6.4ER	0.10 per CER
Above 15,001 credits per year					0.20 per CER
<b>Other fees</b>					
Renewal	Same as applicable registration fee	Same as applicable registration fee	Same as applicable registration fee	Same as applicable registration fee	N/A
Inclusion of CPAs	2,000 per CPA	N/A	N/A	N/A	N/A
Post-registration change	2,000 per request	1,000 per request	[1,000] [1,500] per request	[1,000] [2,000] per request	N/A

Note) The SB 001 proposal and the three alternative scenarios propose fixed rate registration fees differentiated by the activity scale measured in annual average emission reductions, while the registration fee under the CDM is proportional to the estimated annual average emission reductions and is an advance payment of issuance fees, which will be set aside until fully consumed at subsequent issuance requests.

Proposed non-applicability (N/A) of the fee for inclusion of CPAs under the three alternative scenarios is based on the assumption that no assessment by the secretariat will be involved, otherwise some fee may need to be charged to recover administrative expenses.

7. Table 2 below shows the estimated funds that may be raised under each scenario, if all the activities registered under the CDM until the end of 2020 (8,166 activities in total) and all the issuance requests submitted under the CDM for the same period (2.2 billion CERs issued for 3,471 activities) had applied the fee structure and levels under each scenario. The result is presented alongside to the funds that would have been raised under the fee structures and levels of the CDM for the same group of activities for comparison.

**Table 2. Potential funds raised under different scenarios of the fee structures and levels of the share of proceeds for administrative expenses (million USD)**

	SB 001 Proposal	Alternative Scenario 1	Alternative Scenario 2	Alternative Scenario 3	CDM
Funds raised by registration fee	188.0	50.3	56.3	67.8	153.6
Funds raised by registration and issuance fees total	406.5 or 624.9	268.7	384.0	504.7	381.3

8. In addition, for information and reference purposes, if the fee structure and levels under the Verified Carbon Standard (VCS) were applied to the same group of registered CDM activities, the funds that would have been raised are estimated to be about one-third from

- the registration fee and two-thirds from the total fees including issuance fees, compared to those under the CDM (note that under the VCS, like under the CDM, the registration fee is an advance payment of issuance fees, hence there is no genuine consumable funds raised at registration).
9. Based on this analysis, and by comparing the actual expenditure under the CDM from its inception until the end of 2020 as referred to in paragraph 5 above, the following can be concluded:
- (a) All the four scenarios, except for Alternative Scenario 1, would raise sufficient funds to operate the Article 6.4 Mechanism;
  - (b) Under all of the four scenarios, funds raised from issuance fees would be dominant in the long run;
  - (c) **SB 001 Proposal** would raise very high funds from the registration fee, as well as too high funds in total compared to the assumed expenditures if the issuance fee rate is set at the higher level (USD 0.20 per A6.4ER) in the proposal;
  - (d) **Alternative Scenario 1** would raise funds of similar amount as under the VCS fee structure and levels, hence would be competitive with other such market mechanism;
  - (e) **Alternative Scenario 2** would raise almost the same amount of funds as under the CDM;
  - (f) **Alternative Scenario 3** would, like under the SB 001 Proposal with the higher issuance fee rate, raise too high funds in total compared to the assumed expenditure.
10. The three alternative scenarios provide an idea of the range of funds that may be raised under the different fee levels, while keeping the same fee structure and thresholds as in the SB 001 Proposal. In addition to the three alternative scenarios, any combination of the registration fee structure/level and issuance fee structure/level could be considered, which would provide different estimates of funds that would be raised.
11. At SB 001, the possibility of differentiating the fee levels by a different factor than the scale of activities (e.g. authorization or non-authorization by the host Party for use towards nationally determined contributions or other international mitigation purposes) was proposed by a Supervisory Body member. Such differentiation would require another assumption (i.e. how much per centage of activities would be registered, or A6.4ERS would be issued, under such authorization), which is hard to predict. In this information note, to simplify for the consideration of the Supervisory Body, the proposed scenarios and the analysis do not reflect the proposed differentiation. Nevertheless, the Supervisory Body may wish to look into such possibility and request the secretariat to provide further analysis by guiding the key assumption if deemed necessary.
12. It should be noted that, in addition to the funds that may be raised by the registration fees and issuance fees, the Supervisory Body at SB 001 agreed to introduce additional fees (renewal fee, post-registration change fee and CPA inclusion fee) under the Article 6.4 Mechanism as referred to in paragraph 1(c) above. Therefore, there would be additional source of funds to the estimates in Table 2 above, although the level of funds that may be raised from these additional fees may not have a big impact on the total funds. In addition,

it should also be reminded that the Article 6.4 Mechanism received USD 30 million from the CDM Trust Fund for the work of the Supervisory Body to facilitate the expedited implementation of the Article 6.4 Mechanism as well as USD 10 million for the work of the Supervisory Body to provide, through the regional collaboration centres, capacity-building in developing countries for applying the Article 6.4 Mechanism, and support for the transition of CDM activities to the Article 6.4 Mechanism if they are eligible for transition.<sup>3</sup>

## 4. Impacts

13. The analysis in this information note would provide a sound basis for the Supervisory Body to determine appropriate fee structure and levels of the share of proceeds for the administrative expenses.

## 5. Subsequent work and timelines

14. Once the appropriate fee structure and levels are agreed by the Supervisory Body, the Supervisory Body may wish to include them, together with other agreed approaches as referred to in paragraph 1 above as well as the modality and the rate of monetary contribution from individual activities to the Adaptation Fund, in its recommendation to the CMA at CMA 4 in accordance with decision 3/CMA.3, paragraph 6(b).

## 6. Recommendations to the Supervisory Body

15. The secretariat recommends that the Supervisory Body determine appropriate fee structure and levels of the share of proceeds for administrative expenses, taking into account the analysis provided in this information note.

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### Document information

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<sup>3</sup> Decision 2/CMP.16, paragraphs 18–19, contained in document FCCC/KP/CMP/2021/8/Add.1 available at: <https://unfccc.int/documents/460957>.