

CDM EB MEETING REPORT

EB 95, 11 - 13 July 2017

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 Wuppertal Institute manages the JIKO programme, which it conducts on behalf on the German Ministry for the Environment, Nature Conservation, Building and Nuclear Safety.

Website

www.carbon-mechanisms.de

<http://wupperinst.org/projekte/details/wi/p/s/pd/592>

Contact

Nicolas Kreibich

Tel. +49-(0)202-2492 194

Email: nicokr@wupperinst.org

Wuppertal Institut für Klima, Umwelt, Energie GmbH

Döppersberg 19 • 42103 Wuppertal

www.wupperinst.org

Report

CDM Executive Board 95th Meeting

11 – 13 July 2017

Nicolas Kreibich

Contents

Governance and Management	1
<i>Strategic Planning.....</i>	<i>1</i>
Carbon market developments.....	1
Voluntary cancellation of CERs	2
Activities to support use of the CDM as a tool for other purposes.....	2
<i>Performance Management</i>	<i>3</i>
Demand for CERs in the aviation sector	3
Case-specific Rulings	4
<i>Accreditation</i>	<i>4</i>
<i>Programmes of Activities</i>	<i>4</i>
<i>Registration of project activities.....</i>	<i>4</i>
<i>Issuance and voluntary cancellation of CERs.....</i>	<i>4</i>
<i>Other decisions</i>	<i>4</i>
Regulatory Matters.....	5
<i>Standards und Tools</i>	<i>5</i>
Digitisation.....	5
<i>Procedures.....</i>	<i>5</i>
<i>CDM Management Plan 2017.....</i>	<i>5</i>
Relationships with Forums and Other Stakeholders.....	6
<i>Designated Operational Entities</i>	<i>6</i>
<i>Next meeting.....</i>	<i>6</i>

Governance and Management

Strategic Planning

Carbon market developments

The Secretariat reported on current developments in the carbon markets. The first issue addressed was issuance of certificates in the true-up period for the first Kyoto Protocol commitment period.¹ Almost 1.5 billion certified emission reductions (CERs) had been issued for the first commitment period, while only 350 million CERs for the second commitment period.

The Secretariat's report focused largely on use of the CDM under the Paris Agreement. Here, the Secretariat pointed to the fact that a total of 30 nationally determined contributions (NDCs) contain a direct reference to the CDM. However, most the countries in question plan to use the CDM to reduce their domestic emissions. Only Norway and Switzerland see themselves as potential sellers. The Secretariat also reported on the potential for using CERs in national emissions trading schemes (ETS) and carbon tax programmes.

With regard to the **South Korean ETS** discussions are underway as to whether the existing restriction to domestic offsets should be partially lifted for the second period from 2018. No decision has been made to date.

¹ The presentation is available online at: <https://unfccc.events.azureedge.net/media/pdfs/4bc642e3-4221-43d0-88ba-cd78163e0f4c/68295563-1152-4030-a3c5-cfdf4d8d20eb.pdf>

The **EU ETS** appears to be saturated. As participants have already used 1,481 million CERs, only 32.6 million CERs are available to cover demand in the period up to 2020. No domestic offsets are expected in the fourth commitment period starting in 2021.

The introduction of the **South African carbon tax**, which sees use of CERs and certificates from other South African projects, has again been postponed. Because other standards are to be allowed in addition to the CDM, the ensuing demand for CERs remains unclear. It could well exceed supply, which currently lies at approximately 11 million CERs per year.

Mexico's carbon tax also allows use of CERs from Mexican CDM projects. The CERs do not, however, reduce taxable emissions. Instead, their current market value is used to reduce actual tax burdens. This makes the carbon tax programme less attractive and its implementation requirements have not been approved due to lack of demand. Apart from the carbon tax, Mexico also plans to introduce a national ETS. It is expected that a pilot scheme will be introduced by the end of 2017.

Columbia introduced a carbon tax programme with offset components in January this year. The manufacturers and importers of fossil fuels who are affected by the tax can offset their tax burden by as much as 100 percent. Both the CDM and numerous other standards can be used if the associated projects take place in Columbia. The ensuing demand for the CDM cannot be assessed at this time.

The Secretariat also reported on use of the CDM in connection with **result-based finance**

instruments. The World Bank's Pilot Auction Facility (PAF) has issued bonds amounting to 20.6 million certificates (CERs and Verified Carbon Standard and Gold Standard certificates). The Carbon Initiative for Development (CiDev), which is also an arm of the World Bank, has signed agreements with several African project developers on the purchase of CERs and is expected to buy some 5.5 million CERs as a result.

With regard to the **voluntary offset market**, the Secretariat reported that CERs had gained in importance in the past three years. While in 2014 and 2015, 0.8 and 1.1 million CERs, respectively, had been traded, the figure had risen to 5 million in 2016. The importance of the voluntary offset market is dwindling nonetheless.

A further focus of the Secretariat's report was the potential demand for offsets using the **CORSIA** mechanism. For the period 2021 to 2035, the Secretariat estimates offsets in the region of 2.5 to 2.7 gigatonnes of CO₂e.

The Board discussed various statements made by the Secretariat. One Board member pointed out that, in his opinion, the CER potential in some countries had been seriously underestimated. He thus called for more clarity regarding the methodologies used. A Board member from Africa pointed to the support-related needs of poorer countries in preparing their NDCs and also in assessing whether to use the CDM. In answer to a request from the Board, the Secretariat explained that the Chinese ETS will perhaps not contain any offsetting rules. This drove the discussion in an entirely different direction. With regard to the Mexican ETS, the Secretariat added that a register for projects had been created and that efforts were underway to include offsetting projects by including offsetting rules in the future ETS scheme.

Voluntary cancellation of CERs

The Secretariat reported on its work on increasing voluntary cancellation of CERs via the Voluntary Cancellation Platform and asked for permission to initiate an advertising campaign on social media. This would promote use of the portal, it was felt.

The Board did not entirely share the Secretariat's positive view of the situation. While there had been an increase in voluntary cancellation of CERs, only a small portion had been cancelled via the platform. The Board thus questioned the cost-benefit ratio between the costs involved in the media campaign and the value of the CERs cancelled in response to the campaign.

In the end, the Board decided to approve the campaign, but instructed the Secretariat to monitor both the campaign and its impact and report its findings to the Board.

Activities to support use of the CDM as a tool for other purposes

The Secretariat reported on the current status concerning its activities to promote the use of the CDM as a tool for other purposes. Its support activities conducted so far included side events and technical support to promote use of CERS in emissions trading schemes and in other national schemes. Other activities include providing technical support for the International Civil Aviation Organisation (ICAO) and the International Maritime Organisation (IMO). Yet others involve cooperation with finance institutes and development banks on using the CDM infrastructure as an MRV tool. The Board took note of the current situation and said that in future reports on this issue, it would like the Secretariat to consider the mandate already issued regarding the individual sectors and to document the information it presents.

Performance Management

Demand for CERs in the aviation sector

The Secretariat reported on its activities concerning the aviation sector. The aim is to encourage airlines to offset their emissions pre-2020 and to support the ICAO in developing its CORSIA offsetting mechanism. The Secretariat had attended five workshops on carbon markets in aviation which were held by the International Emissions Trading Association (IETA) and the International Air Transport Association (IATA).

The Secretariat also supports the ICAO in developing the Emission Unit Criteria (EUC) used in approving the certificates used in the CORSIA scheme. Additional events with participants from the international aviation sector are planned for 2017 in order to promote use of CERs in the period up to 2020. The Secretariat also reported on the status of the debate within the IMO, saying that it was still in its early stages and that a decision had yet to be made regarding potential use of market-based instruments and carbon management and balance in the aviation sector.

In response to a question from the Board, the Secretariat explained that the conditions for using CORSIA are to be finalised by the end of the year. They must then be approved by the signatory states. The Secretariat further explained that its role is limited to highlighting the impacts of potential rules concerning the CDM. No recommendations were made concerning the design of CORSIA eligibility rules. The Secretariat announced that it would present a detailed report on CORSIA-related activities at the end of the year and that the report would be subsequently discussed at the first EB meeting in 2018.

Improving the user-friendliness of the Sustainability Development Tool

The Secretariat reported on its activities to improve the user-friendliness of the Sustainable

Development Tool (SD Tool). These are designed to prevent problems such as data loss and also enable simplified, more intuitive use. The activities will also optimise work processes between project developers and the Secretariat, and give stakeholders a better overview of the co-benefits achieved.

The Board took note of the changes and gave instructions for further improvements to the tool. For example, users are to be given the opportunity to upload additional documentation concerning the co-benefits achieved and certain textual components are to be reviewed as regards their usability. The revised tool will be introduced in Q3 2017. With regard to the promotional campaign planned to introduce the revised tool, the Board suggested including DNAs as well as project developers. The Board instructed the Secretariat to report back in 2018 on the outcome of the campaign and the input received.

Case-specific Rulings

Accreditation

The Board renewed the accreditation for six DOEs for a period of five years. An application to extend the accreditation of a further DOE was rejected due to the fact that its current accreditation was being renewed. The Board revisited the case of another DOE who is currently under observation and called for further improvements to be made. While performance assessments had been successfully completed for seven DOEs, the Board requested a re-assessment for one particular DOE.

Other decisions

The Board considered three DOE requests for permission to perform both validation and verification of a project. Both requests were rejected.

Programmes of Activities

310 PoAs were registered as of 13 July 2017, covering a total 2,061 CPAs. To date, 8,938,800 CERs have been issued for PoAs.

Registration of project activities

7,776 CDM projects were registered as of 13 July 2017.

Issuance and voluntary cancellation of CERs

1,843,750,188 CERs had been issued for CDM projects as of 13 July 2017 and 22,464,732 CERs were cancelled voluntarily. Of these, 127,302 were cancelled using the new Climate Neutral Now platform for voluntary cancellation.

Regulatory Matters

Standards und Tools

Digitisation

The Secretariat reported on the current status in implementing the results of work on digitalisation of the CDM process and methodology-specific forms. To implement this work, the Secretariat has commissioned an external provider who is currently developing two web-based products. One is a tool for internal use by the Secretariat which enables methodology-specific requirements to be transferred to web-based questionnaires. This includes mathematical formulas for use in generating the necessary CDM forms. A second interface targets external stakeholders and is designed to simplify development of CDM activities (single projects, PoAs and standardized baselines). After some further changes and revision, the new tools will be presented at EB 96.

Procedures

At its 93rd meeting, the EB had decided to combine the Methodologies Panel and the Small Scale Working Group. The Secretariat had been instructed to revise the process documents accordingly. After minor changes had been made, the Board approved the Secretariat's draft process documents. The revised documents "Procedure: Terms of reference of the support structure of the CDM Executive Board"² and "Procedure: Selection

and performance evaluation of members of panels and working groups under the CDM Executive Board"³ enter into force on 1 September 2017.

CDM Management Plan 2017

The Secretariat reported on the current status regarding the CDM Management Plan (MAP) 2017. It said there was no need to adjust the plan because implementation of the activities and product development were progressing in line with the pre-planned schedule. One Board member expressed concern given the slow progress being made in developing the PoA working processes. The Secretariat explained that some processes had been brought forward in order to accelerate the process as a whole. Nonetheless, work was still progressing according to plan.

The Board took notice of the status regarding MAP implementation and instructed the Finance Committee to work closely with the Secretariat in developing a draft MAP 2018-2019. The draft is to be discussed at EB 96.

² Available online at:
<http://cdm.unfccc.int/UserManagement/FileStorage/YNS3EJDW8ZHPT1B7264LVGCXF5A00K>

³ Available online at:
<http://cdm.unfccc.int/UserManagement/FileStorage/Z0LWQVEGIFBAJS9YXM31NUH4C2OK6P>

Relationships with Forums and Other Stakeholders

Designated Operational Entities

The Board consulted with Werner Betzenbichler, the DOE Forum Chair, who provided input on the accreditation activities involved in implementing the MAP. Mr. Betzenbichler stated that the number of accreditations and re-accreditations was significantly below the forecasted figures and questioned the possible causes or cause.

The Board explained that the low number of accreditations was the result of poor demand for CERs. An additional factor was that the accreditation period had been increased from three years to five. The Board ensured the DOE Chair that accreditation applications will continue to be processed in the usual manner.

Next meeting

The next meeting will be held in Bonn from 18 – 22 September 2017.