

CDM EB MEETING REPORT

EB 82, 16 – 20 February 2015

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Report

CDM Executive Board 82nd Meeting

16 – 20 March 2015

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Summary

- Former Vice-Chair Lambert Schneider was elected as Chair of the Executive Board. Eduardo Calvo will serve as Vice-Chair. Calvo is an environmental economist and has a professorship at the San Marcos University in Lima, Peru. He also acts as an adviser to the Peruvian Ministry of Foreign Affairs.
- The EB has two new members: Balisi Gopalang, a meteorologist from Botswana, and Muhammad Tariq, an architect and Director General of the Climate Change Division at the Pakistan Ministry of Environment. New among the alternate members are Arthur Rolle (Bahamas), Joseph Amougou (Cameroon), Daegyun Oh (South Korea) and Piotr Dombrowicki (Poland, and formerly a JISC member). All alternate members have previous experience with the CDM (or JI).
- The Board stressed the fact that a common accreditation system for JI and EB may not be the most appropriate way to generate synergies. Talks will, however, be held with the JISC to discuss short-term collaboration.
- The project cycle procedure is to be tightened up and made more effective. At the request of the CMP, the PoA rules are to be consolidated into one consistent set of rules.
- As regards stranded projects that can no longer be conducted or continued due to the unfavourable market conditions, the Board decided to ask for reports on the current status of all registered projects. Fact-based information only will be forwarded to international credit institutions to apply for potential financial support.
- The regional collaboration centres to promote the CDM in under-represented regions will be subject to third-party evaluation. The results will be available in the second half of the year.
- The Board adopted the standardized baseline (SB) for methane emissions from rice cultivation in the Philippines. With this decision, a total of eight SBs have now been approved. Five address grid emission factors, one covers efficient charcoal production and two focus on rice production (technology switch and methane reduction). A further 19 SBs are currently going through the approval process, while three others are being developed by the Secretariat in a top-down approach.
- The SB framework is to be further developed. In the course of this year, guidelines for the creation of sector-wide emission factors will be developed, the performance penetration approach from the SB Guidelines will be put to the test and development of country-specific thresholds for additionality and baselines will be assessed. The Board adopted a workplan to this end.
- In 2015 and 2016, a broad range of new methodologies are to be developed in a top-down approach to enable broader use of the CDM. In particular, integrated methodologies for PoAs are to be developed with a view to reducing costs and to address overlapping. The sectors to be addressed included cities, for which (building on existing methodologies) the

integrated methodologies from energy, waste management, transport and building sectors are to be developed, and also aviation –such as use of renewables and efficiency measures in processing aircraft on the ground (international flights will be addressed by the ICAO). As regards renewable energy sources and rural electrification, development of an integrated methodology for efficiency measures in households was proposed (cook stoves, solar water heaters, water treatment and cooling).

- At the request of the CMP, the Board discussed its stakeholder communications process. The associated procedure was tightened up and enhanced. For example, a central communications channel was created which will consolidate all communications with the Board and the Secretariat. In addition, the registered observers at the EB meetings will be heard at the start of the meetings, with video conferencing links and written statements being used if necessary. Finally, the Secretariat will systematically document all inputs and, where appropriate, provide written statements explaining why comments could not be considered.
- The Board also discussed a concept note on voluntary monitoring of the sustainable development co-benefits of projects. The Secretariat suggested that interested project developers should monitor, report on and – where desired – validate project implementation status using the Board’s voluntary CDM sustainable development co-benefits description tool (SD tool). The Board showed some hesitance, but agreed that monitoring of this kind is possible in principle. The modalities (methodologies, frequency and validation) would not be regulated, but could be determined by project developers themselves. The monitoring methods should, however, be specified in the PDD. The Board emphasises that monitoring will have no influence whatsoever on the issuance of CERs.

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Steering and Management

Election of the new EB Chair

Two new permanent members had been elected to the Executive Board at COP10: Balisi Gopalang and Muhammad Tariq. Gopalang is a meteorologist from Botswana, where he is responsible for developing the country's climate change policy. He assisted in creating the Botswanan DNA and represents his country as the lead negotiator in the UNFCCC climate change negotiations. Tariq studied architecture and development policy, and is Director General of the Climate Change Division at the Pakistan Ministry of Environment. In this role, he supports the national CDM DNA.

New among the alternate members are Arthur Rolle (Bahamas), Joseph Amougou (Cameroon), Daegyun Oh (South Korea) and Piotr Dombrowicki (Poland, and formerly a JISC member). One alternate member seat will be filled at a later date. All alternate members have previous experience with the CDM (or JI).

Former Vice-Chair Lambert Schneider was elected as EB Chair. Eduardo Calvo will serve as Vice-Chair. Calvo is an environmental economist and has a professorship at the San Marcos University in Lima, Peru. He is also acts as an adviser to the Peruvian Ministry of Foreign Affairs.

Strategic Planning

CMP Requests

The Secretariat summarised the decisions of COP 10 in Lima. The key tasks assigned to the EB involve:¹

- Consider whether requests for revision of methodologies can be made without a project design document.
- Simplify and streamline methodologies with the aim of reducing transaction costs.
- Report on the procedure for voluntary deregistration.
- Further analyse options to allow simplified registration of project activities that qualify as automatically additional.
- Analyse options to allow the same DOE to carry out validation and verification for the same project activity, including for large-scale projects.
- Develop and digitize methodology-specific design document forms (PDDs).
- Consider adjusting, and if appropriate implement, the rules governing programmes of activities (PoAs) to achieve greater consistency.
- Develop options to improve accreditation of designated operational entities (DOEs) in under-represented regions.

¹ The Lima decision can be viewed at:

<http://unfccc.int/resource/docs/2014/cmp10/eng/09a01.pdf>

In a separate decision, the EB was requested to consider the possibility of opening the CDM LULUCF project family to revegetation projects. The EB is to identify passages in the current modalities and procedures that need to be changed.

Coordination of UNFCCC bodies

In line with a decision made at the climate change conference in Lima, former EB Chair, Hugh Sealy, had attended a meeting held the week before the EB meeting to promote better collaboration and synergy between and among UNFCCC institutions like the GEF, GCF and others. It was part of the Technical Expert Meeting to support negotiations under ADP Workstream 2 (enhancing pre-2020 mitigation action). Sealy reported that he had spoken in favour of the CDM as an instrument for results-based reduction measures along with the option of voluntary cancellation of CERs. In particular, he had advised the GCF to use part of the funds allocated for reduction measures to purchase and cancel CERs from the current pipeline.

Perception of the CDM is, however, strongly influenced by the notion of high transaction costs, Sealy reported. Some also had the impression that cancelling CERs could conflict with Parties’ compliance efforts in the second Kyoto commitment period.

The Board agreed that the new Chair should continue the dialogue if the EB receives requests from the ADP.

Merger of the JISC and EB accreditation systems

In a separate decision, COP 10 had requested the EB and the JISC to work together on the question of whether a joint accreditation committee could be established and to report back on the matter at this year’s conference. This sparked strong objections within the EB, which had already rejected the idea a year ago. The

Board adopted a decision text, in which the EB considers that a joint accreditation committee may not be the most appropriate form for generating synergies. It should, however, hold talks with the JISC.

Carbon market developments

The Secretariat presented the main carbon market developments. It pointed out that carbon pricing mechanisms were on the increase worldwide, although most schemes focused on domestic measures. Thus, in the quest for new demand, the CDM must fall back on unregulated sectors and concentrate on the needs of possible new uses. A respectable list of the CDM’s strengths had been drafted at the last DNA Forum (see Figure 1).

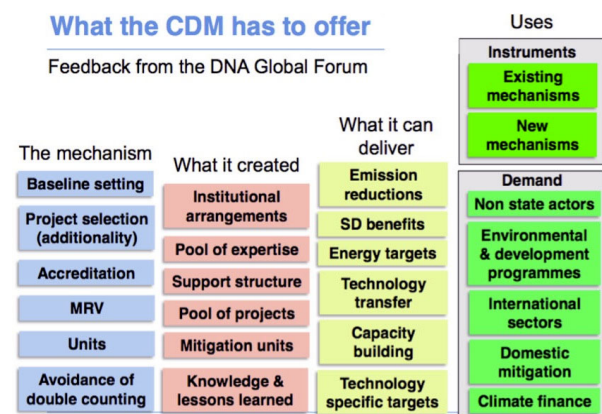


Figure 1: Impressions from the DNA Forum on CDM Usability. *Source: UNFCCC.*

The Secretariat pointed to some schemes currently being developed from which potential demand for CERs could ensue. For example, the South Korean ETS launched at the start of the year has generated (minimal) potential demand although this is limited to CDM projects conducted in South Korea. In South Africa, a policy paper addressed the potential role of offsets in the planned carbon taxation scheme. Whether, in addition to Chinese CCERs, CERs from the CDM can also be imported into the Chinese ETS has yet to be decided, the Secretariat added. Finally, the matter of the International Civil Aviation Authority (ICAO) considering use of

the CDM was raised – although it sees the CDM as one option among many.

Simplifying the CDM project cycle

CMP 10 had requested the Board to simplify the steps in the project cycle process and make them more effective. This mandate takes in other processes already underway within the Board, so that the various threads can be consolidated into a multiyear Secretariat ‘project’ which takes in the following steps:

- Simplified registration requirements for projects and PoAs that automatically qualify as additional.
- Consolidated and simplified PoA rules.
- Greater consideration of materiality.
- Development of criteria which allow DOEs to both validate and verify one and the same project.

The EB members welcomed the Secretariat’s concept note. However, some found the approach lacking in structure; the Japanese representative would like to see clear indicators for improved efficiency. This requires a cost-risk analysis for environmental integrity. The Secretariat was requested to publish a Call for Public Inputs immediately after the meeting to allow opinions on use of the CDM to flow into the process at the earliest possible juncture.

Key performance indicators

The Board had included development of key performance indicators (KPIs) in its Management Plan 2015. The Secretariat presented its first KPI proposal, which in the first instance sparked questions to stimulate the debate. The Board placed importance on the fact that the indicators should serve in measuring the mechanism’s efficiency. Clearer focus should also be placed on the Secretariat’s performance. A small group comprising members of the Secretariat and the Board will develop a concept note.

Support for stranded projects

The Board had agreed to look at ways to support stranded projects in 2015. These are projects which cannot be implemented or continued due to the unfavourable market conditions. The Secretariat had developed a concept note on this issue.² Many EB members found this far too biased towards having CDM projects subject to a rating process. And following what in some cases were intense reactions, the Board rejected the proposed statistical model contained in the concept note and instructed the Secretariat to ensure that only fact-based information be used and forwarded to credit institutions, where appropriate. In addition, a neutral survey of all registered projects will be conducted to obtain information on their current state of implementation.

² The Concept Note can be viewed at:

<http://cdm.unfccc.int/UserManagement/FileStorage/C70QMNb15D9ZIYPOJLTK483UG2RHVW>

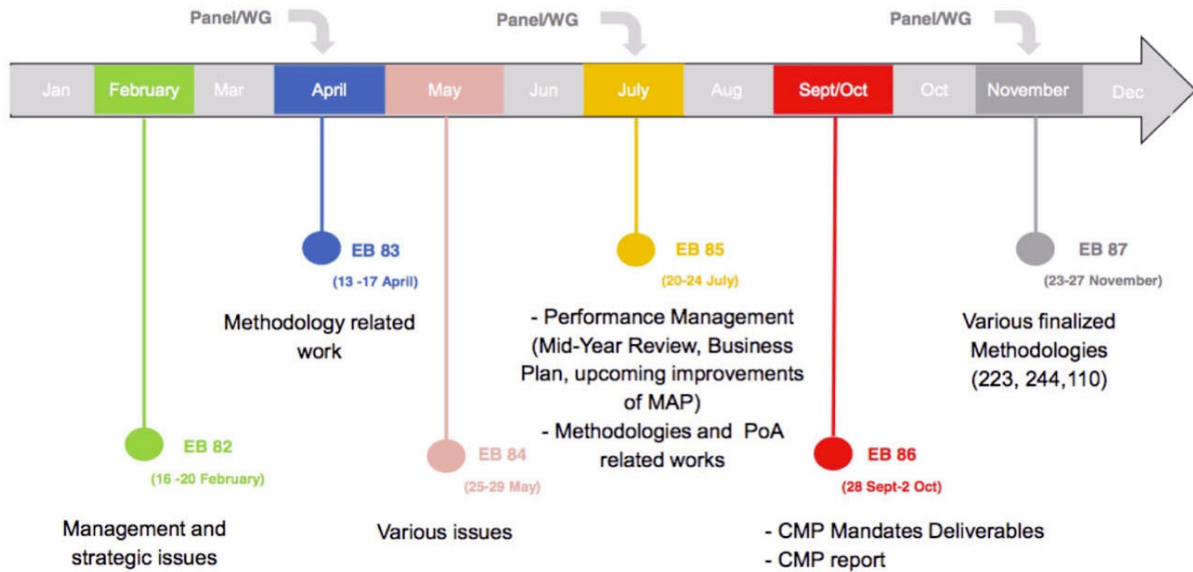


Figure 2: Workplan 2015 – Topics and Deadlines. *Source: UNFCCC.*

Performance Management

Workplan 2015

The Secretariat considered a presentation on the workplan for 2015, which the Board approved without much discussion. Apart from the new CMP mandates, the plan’s highlights include the development of key performance indicators (KPIs) for the CDM (see above), development of six standardized baselines and revision of the investment analysis guidelines. The Board also approved the subordinate plans for the working groups.

Regional Collaboration Centre evaluations

At its 81st meeting, the EB had agreed that the regional collaboration centres to promote the CDM in under-represented regions should be evaluated. The Secretariat presented a draft call for experts for this activity.

The Board members approved the draft in principle. However, the target group must be more accurately defined, the budget made more generous and the indicators and required

previous experience of potential consultants better specified.³

The Call for Inputs will be published for two weeks. Prior to the next meeting, the Secretariat will present a short-list of prospective consultants to the Board.

Report on DOE activities

The Secretariat presented the annual DOE Synthesis Report for the period July 2013 to June 2014. In June 2014, 45 auditors were accredited in a market subject to great distortion. Nonetheless, sufficient DOEs have been accredited for each sectoral scope. More than half of the DOEs reported that they are active in countries with fewer than 10 registered CDM projects. The DOEs are thus increasingly acting as external consultants – a situation which calls for the EB to amend the quality assurance rules.

The complaints regarding delayed processing of cases are on the decline, as is the number of cases overall. By way of contrast, the reduction in services offered by the DOEs was somewhat slowed down.

³ The final document can be viewed at:

<http://cdm.unfccc.int/UserManagement/FileStorage/SB7J/MZ5I9VTC2D8YNK3GR1EALOUHPQ>

The market structure has not changed to any great extent: 25 percent of auditors still dominate the market, although there have been some changes regarding the auditors themselves following the departure of some well-known DOEs. The costs of validation and verification services have dropped in Africa, Latin America and the Caribbean, while they have risen in the same time-frame in Asia-Pacific and Eastern Europe. More than 50 percent of the DOEs made or were at risk of making losses in the reporting period.

Nairobi Framework Report

The Board also took note of the annual report on the Nairobi Framework Partnership (NFP) activities to support under-represented countries in the CDM. In 2014, focus had largely been placed on capacity-boosting and supporting project developers, especially through the RCCs.

In conjunction with other international organisations, the RCCs work largely to support PoAs and standardized baselines. The CDM Loan Scheme had issued a further 25 loans. The market situation has led to stakeholders showing greater interest in new market mechanisms and other mitigation measures. This is reflected in the support services provided by the NFP partners, who are now bringing results-based financing into the arena, taking account of the CDM's MRV toolbox and the associated capacities.

Structure of the Board and Secretariat

The EB composed the panels and working groups as follows:

Martin Ederlin was appointed Chair of the Accreditation Panel for 2015. Arthur Rolle will serve as Vice-Chair.

Hugh Sealy was appointed Chair of the Methodologies Panel. Frank Wolke will serve as Vice-Chair.

Diana Harutyunyan was appointed as Chair of the Small-Scale Working Group (SSC WG). Washington Zhakata will serve as Vice-Chair.

Joseph Amougou was appointed Chair of the Afforestation and Reforestation Working Group (A/R WG). Olivier Kassi will serve as Vice-Chair.

The Carbon Dioxide Capture and Storage Working Group (CCS WG) will again be Chaired by José Miguez. Kazunari Kainou will serve as Vice-Chair.

Balisi Gopolang was appointed as Chair of the Finance Committee. Kazunari Kainou will serve as Vice-Chair.

The Board decided to increase the size of the Finance Committee and, in addition to the Chair and Vice-Chair, appointed new members José Miguez, Daegyun Oh, Martin Enderlin and Olivier Kassi. The Board also discussed the possibility of developing a longer-term finance plan up to the end of the true-up period in the second commitment period (in 2023) and to begin with the finance plan for 2016 earlier than usual.

Case-specific Decisions

The Board reached no case-specific decisions. It was reported that five DOEs voluntarily withdrew their accreditation.

The counter for voluntary cancellation of CERs currently stands at 1,907,115 CERs. By way of comparison: 1,539,608,782 CERs have been issued via the regular channels to date.

Regulatory Issues

Standards and tools

Standardized Baselines

The Board discussed the proposed standardized baseline (SB) for methane emissions from rice cultivation in the Philippines. The EB members criticised the calculation methodology because the baseline and the project emissions are calculated based on one and the same parameter. This meant that the project emissions were also standardised, which some members felt was not in line with the CMP mandate on standardized baselines. To remedy this, the SB was altered so that standardisation was restricted to the baseline emissions only. To calculate the project emissions, project developers can draw on the underlying small-scale project methodology. This does not affect projects conducted using the SB.

With this decision, a total of eight SBs have now been approved. Five address grid emission factors, one covers efficient charcoal production and two focus on rice production (technology switch and methane reduction). A further 19 SBs are currently going through the approval process, while three others are being developed by the Secretariat in a top-down approach.

The Board also considered further development of the standardized baselines framework. The Secretariat had put together an overview of the planned work, which comprises numerous requests from recent years. The plans include development of guidelines for the creation of sectoral emission factors, putting the performance penetration approach to the test and developing country-specific thresholds for additionality and baselines.

The Board primarily questioned the much-criticised work on a database on the cost and efficiency of technologies. The Secretariat will design a concept note for the development of a demand-driven database.

Top-down development of methodologies

In 2015 and 2016, a broad range of new methodologies are to be developed in a top-down approach to enable broader use of the CDM. In particular, integrated methodologies for PoAs are to be developed with a view to reducing costs and to address overlapping.

The Secretariat presented its workplan which addresses the following sectors:

- Cities: an integrated package of measures comprising energy, waste management, transport and building sectors – based on existing methodologies
- Aviation: use of renewables and efficiency measures in processing aircraft on the ground (international flights will be addressed by the ICAO)
- Biofuels
- Transport: with standardisation the main consideration
- Agriculture: a range of measures could be consolidated, such as efficient pumps and alternative fertilisers

Renewable energy sources, rural electrification and household power supply: this could include integrated methodologies for efficiency measures in households (cook stoves, solar water heaters, water treatment and cooling).

The Board welcomed the workplan in principle, but pointed to potential problems in the cities sector in respect of MRV and double counting.

It was also thought that, as an alternative to combining methodologies, consideration should be given to changing the PoA rules – for example to allow very different CPAs under one programme.

On the whole, the Board felt that some sectors were not sufficiently mature, which is why sectoral concept notes need to be developed. Final products must be available for aviation and biofuels by the end of 2015.

Methodology simplification

In 2014, the Board had set itself the task of further simplifying and standardising the CDM methodologies in order to reduce transaction costs. This was confirmed at CMP 10, especially for PoAs. The Secretariat presented its concept note for the respective activities, which are to include:

- Development of best-practice examples
- Consider options for further use of positive lists
- Explore alternative approaches in proving additionality
- Develop and digitalize methodology-specific PDD forms
- Expand options to allow combination of methodologies in PoAs without the need for Board approval

The Board adopted the workplan. Some members pointed to the fact that with regard to additionality, it was not simply a matter of simplification, but of generally ensuring environmental integrity. The Secretariat will develop a concept note which takes up the matters discussed so far and sets out possible solutions. Input from the specialist public will be integrated into the concept note.

Procedure

Stakeholder communication

At the request of the CMP, the Board discussed its stakeholder communications process. The associated procedure was tightened up and enhanced. For example, a central communications channel was created which will consolidate all communications with the Board and the Secretariat. In addition, the registered observers at the EB meetings will be heard at the start of the meetings, with video conferencing links and written statements being used where necessary. Finally, the Secretariat will systematically document all inputs and, where appropriate, send written statements explaining why comments could not be considered.

Monitoring of Sustainable Development Co-benefits

The Board also discussed a concept note on voluntary monitoring of the sustainable development co-benefits of projects. The Secretariat suggested that interested project developers should monitor, report on and – where desired – validate project implementation status using the Board's voluntary CDM sustainable development *co-benefits* description *tool* (*SD tool*). The Secretariat proposed the development of a structured process for this activity. This should also enable the monitoring results to be published and, where appropriate, provide criteria for validation and verification by the DOEs.

The Board was hesitant, with some members stressing the importance of the sustainability aspects. Many pointed to the voluntary nature of the Tool, which should not involve commitments of any kind. The SD Tool already contains an option for voluntary monitoring. Members also pointed to the possibility of additional costs.

In the end, the Board agreed that the option for voluntary monitoring could be included in the

CDM framework in principle. The modalities (methodologies, frequency and validation) would not be regulated, but could be determined by project developers themselves. The monitoring methodologies should, however, be specified in the PDD. The Board emphasised that monitoring will have no impact whatsoever on the issuance of CERs.

Review of PS, VVS and PCP

The framework comprising the project standard, the validation and verification standard, and the project cycle procedure was reviewed to provide consistency with various revisions and amendments to other documents. It also integrates the previously discussed procedures for deregistration and the flexibility the CMP would like to see in verification of A/R activities in the CDM framework. The Board requested the Secretariat to develop a concept note for a procedure to allow re-registration of deregistered projects.

Interaction with Forums and Other Bodies

Designated Operational Entities

Werner Betzenbichler, Chair of the DOE Forum, gave an overview of the DOE activities in 2015 and commented on specific agenda items. This year, the DOEs will focus their activities on the new accreditation standard and will support the UNFCCC negotiation process. Upon request, Betzenbichler explained that the climate change conference in Paris will decide market participation of many DOEs. Should no positive signal come out of the conference, most DOEs would withdraw their services.

Betzenbichler criticised the planning of fixed fees for accreditation. These are only to be discussed by the EB towards the end of the year. This means that no simplification of (and thus reduction in) the costs for DOEs can be achieved in 2015.

He rejected the argument contained in the concept note on monitoring of SD co-benefits that the DOEs have no experience in monitoring such activities. The Forum Chair pointed to experience gained with the Gold Standard and other standards.

Next Meeting

The next EB Meeting will be held in Bonn from 13 – 17 April.