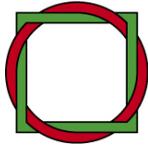


CDM EB MEETING REPORT

EB 84, 25 - 28 May 2015



Wuppertal Institute
for Climate, Environment
and Energy

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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.

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Report

CDM Executive Board 84th Meeting

25 – 28 May 2015

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Governance and Management

Strategic Planning

Simplifying and streamlining the CDM

The Secretariat presented a concept note on simplification and streamlining of the CDM. The document lists a number of areas which the Secretariat believes could be suited to revision. When selecting these areas, responses to a public call for inputs had been taken into account.

In some cases, the proposals were extremely detailed. For example, an analysis as to whether LoAs may be submitted after applying for registration or whether the length of the crediting period should be made more flexible. Greater flexibility in proving additionality and ex-post adjustments to monitoring activities were also considered.

The Board was at times highly critical of the concept note. With regard to the structure of the document, some members stressed that they would have liked to have seen the mapping of various positions and a presentation of the proposed working areas in relation to existing projects that are already underway. Budget-related implications should also be presented more clearly. The Board also criticised the contents of the concept note, saying that in some instances, it went far beyond simplification and streamlining of the CDM and instead proposed underlying reforms which would change both the character and the structure of the CDM. As a result, some of the proposals exceeded the EB mandate and had already been addressed by the CMP as part of the CDM reform. Some Board members were concerned about the negative

impact some proposals would have on environmental integrity. The narrow timeline also attracted criticism.

Following intense discussion of the various proposals, the Board limited the number of measures to be further assessed. For example, the proposals on flexibilisation of the crediting period and LoA submission should not be pursued any further. For those measures to be further considered, the Board asked the Secretariat to draft concrete proposals for presentation at EB 86, paying particular attention to ensuring environmental integrity. The measures to be pursued further include:

- Balancing the accuracy and time/cost-efficiency in demonstrating additionality
- Introducing higher flexibility in ex post adjustment of monitoring;
- Better use of DOEs' professional judgement
- Expanding use of the materiality model
- Reducing the number of steps and the timelines in the project cycle
- Making methodologies and tools more user-friendly
- Reducing steps and timelines for developing a new or revised methodologies and standardized baselines

The Board threw out the original idea of organising a workshop to discuss streamlining and simplification of the CDM with stakeholders.

Consolidated and streamlined PoA provisions

The Secretariat presented a concept note on a consolidated and streamlined set of provisions for PoAs. This was in response to a mandate issued by the CMP. The idea was to improve consistency in PoA provisions. For example, the Project Standard (PS), Validation and Verification Standard (VVS) and Project Cycle Procedure (PCP) contain provisions which are unclear regarding whether they should be applied to CDM projects only or also to CPAs.

The Secretariat proposed the drafting of PoA-specific versions of PS, VVS and PCP so that there would be two versions of each (one for single projects and one for PoAs). For this comprehensive revision, the Secretariat proposed amending the timeline from the original completion in time for EB 86 to completion in 2016 or later.

The Board was not convinced by the proposal. Rather than increasing the number of documents from the current three to six, an assessment should be made as to how the number can be reduced in order to simplify their management. Some Board members criticised the significant changes to the processing timeline and the associated increase in resource use. Finally, the Board instructed the Secretariat to conduct a comprehensive analysis and to present options for restructuring at a future meeting. In the analysis, the Secretariat should consider project developers and other stakeholders.

Using the CDM infrastructure in other areas

The Secretariat presented an information note on use of the CDM infrastructure in other areas, for example as an MRV tool in results-based finance programs. Apart from climate financing, the Secretariat listed other areas in which the CDM is already been used or in which it could

be used in future. These included the emissions trading schemes currently being established and the voluntary market.

The Board welcomed the report, although some members stressed that the study should be linked to the activities to foster demand for CERS in order to prevent doubling of efforts. Some Board members expressed scepticism as regards use of the CDM with other instruments. In climate financing, most stakeholders focused largely on ex-ante assessments of the activities and failed to take actual emission reductions in tCO₂ as the basis for their calculations. However, the CDM could supply individual components for this and other initiatives, for example in the form of monitoring requirements.

The Board underlined the importance of public relations work to raise awareness to the potential in using the CDM infrastructure. The Board instructed the Secretariat to continue its work on this matter and to keep the Board informed of its progress on a regular basis. The Secretariat should also ask for feedback from stakeholders on possible barriers or gaps that may hinder CDM use.

Validity of regulations for resubmissions of requests for registration and CER issuance

The Secretariat presented a concept note on the validity of regulations for resubmissions of requests for registration and issuance that had been rejected as being incomplete. The current regulations stipulate that requests for registration and issuance of CERs must meet the requirements that apply at the time of submission. All requests rejected as being incomplete at the time of the completeness check will be handled as new requests when resubmitted. This harbours the risk of higher transactions costs should the regulations have changed in the meantime.

In the past, provisions had been made to minimise the risk of requests not passing the completeness check. To further reduce the risk should a resubmitted request involve comprehensive changes, the Secretariat put forward two options. Option 1 involves expanding the list of editorial or consistency errors which could lead to the fact that a renewed submission does not result in an adjustment of the submission date. Option 2 involves the introduction of a 28-day transition period following notification of incompleteness. Within this period, submissions which were classed as incomplete may be resubmitted without the need for amendments to comply with new regulations.

The Board engaged in heated debate regarding the second solution. Some Board members welcomed the introduction of a 28-day transition period as a measure that would afford project developers more flexibility. Others felt it did not go far enough and called for the date of the first submission to be retained at all times. One Board member stated that retention of the date of the initial submission could result in project developers submitting incomplete requests in order to secure compliance with the regulations in place at the time and then submit a complete request at a later date. This could result in a situation where projects were constantly being registered which did not meet prevailing regulations. Board members felt it was unlikely that this would actually occur.

After much debate, the Board decided to further consider the introduction of a 28-day deadline as part of the efforts to simplify and streamline the CDM. Looking at the Secretariat's first option, the Board decided to expand the list of editorial and consistency errors which would allow the original submission date to be retained. The Secretariat was instructed to revise the checklists used in the completeness check.

Project evaluation by climate financing institutions

The Board considered a concept note from the Secretariat on the provision of project information needed to assist project evaluation by climate financing institutions. The concept note stemmed from a Board mandate on CDM modalities and procedures to promote matching of projects and investors. Given the low CER prices, some projects are at risk of being halted. Measures are needed to counteract this risk.

EB 82 had asked the Secretariat to consult financing institutions regarding the information they need in selecting eligible projects. The Secretariat proposed collating the relevant project information from largely internal sources and either forwarding it to the institutions or making it available via a publicly accessible platform. A survey of project participants was also proposed.

The Board welcomed the proposal in principle, but many members criticised its vagueness regarding the costs that could be involved with the measures. Some Board members warned against establishing a new database, preferring the use of existing databases instead. Others stressed the huge benefits to be had from the proposed measures, adding that if implemented correctly, the associated costs would remain within the estimated budget.

In the end, the Board agreed to adopt the proposals, but added further requirements. The survey should be limited to project developers and not involve cost-intensive measures such as telephone interviews. The results should be presented to the Board, which would then decide on their further use. With regard to the database, the Board requested a list of the information it would contain. At EB 85, the Secretariat should provide further information regarding the costs involved and present a range of options as to how the data might be made publicly accessible and be linked to databases already operated by the UNFCCC.

The Board issued a general request to the Secretariat to make the cost implications of proposed measures clearer in future – especially in cases where activities are proposed which would routinely be conducted beyond the cycle of the project involved.

Support for DNAs in monitoring sustainable development benefits

The Secretariat presented the implementation plan for support for DNAs in developing guidelines for monitoring sustainable development benefits.

One Board member stressed that only the DNA in Cambodia had requested support and again questioned whether the plan was needed. Good-practice guidelines were not practicable given the differences between the various countries involved. The Secretariat and the Chair emphasised the fact that the Board had decided in favour of the procedure at EB 80 and that EB 84 was only supposed to take note of the implementation plan.

Finally, the Board took note of the implementation plan and asked the Secretariat to alter the wording of the guidelines from 'best-practice' to 'good-practice'.

Report on the latest carbon market and policy developments

The Secretariat presented a report on the latest carbon market and policy developments. Among other things, the report gives an insight into demand for CERs, the status of the voluntary market and the role of market-based instruments in intended nationally determined contributions (INDCs). It also contains a case study on the role of the CDM in South Korea and an overview regarding cancellation of registration of CDM projects requested by EB 82.

The Secretariat stressed that the mechanisms for carbon pricing are gaining in popularity as a

central climate change policy instrument. Market-based mechanisms will continue to be considered beyond 2020 and this will not change even though demand for CERs for the period up to 2020 remains poor.

Performance Management

Workplan

The Board took note of the changes to the EB Workplan 2015 with no real discussion. The decisions taken at EB 83 had given rise to nine amendments. Against this backdrop, the Board decided that the consolidated document on e-policies, which was originally on the agenda for EB 85, would be taken up at a later meeting.

Fostering demand for the CDM

The Secretariat reported on the current status of activities to foster demand for the CDM. The report covered the period January 1, 2015 to April 30, 2015. Of the nine activities involved, the Secretariat reported on four in detail:

- Exchange with other intergovernmental organisations (IGOs)
- Support for decision-makers in compliance markets
- Development and promotion of tools for voluntary cancellation of CERs
- Support for the Subsidiary Bodies

The Board welcomed the measures and discussed the matter of exchange with other IGOs at length. Here, the Board underlined the importance of exchange with the International Civil Aviation Organisation (ICAO) and the Green Climate Fund (GCF). The ICAO debate on the introduction of a global market-based mechanism in the aviation sector from 2020 is, according to the Secretariat, well advanced and a decision is expected in 2016. The Secretariat expects the CDM to play a key role in steering

the aviation sector towards carbon-neutral growth. To achieve this, some 1.6 billion tCO₂e must be set off in the period 2021 to 2030. One Board member stressed the importance of the process and reported that when attending a regional meeting of the ICAO in Lima, he had noted the absence of CDM representatives. The principles the ICAO had laid down for emission reductions (rejection of a carbon tax, no restriction on growth in the aviation sector, maintaining environmental integrity) made the CDM a good choice.

With regard to the possible use of the CDM pipeline by the GCF, the Secretariat indicated that the process was somewhat slow. Against this backdrop, the Secretariat suggested that the exchange should take place at Board level. Given that a past meeting of the two boards had not resulted in a successful outcome, it was thought that the attendance of an EB Chair at a future GCF Board meeting might improve the situation.

Case-specific Rulings

Accreditation

The Board took note that two DOEs had voluntarily withdrawn their accreditation.

Programmes of Activities

As of 28 May 2015, 281 PoAs had been registered, making for a total of 1,863 CPAs. To date, some 2,812,003 CERs have been issued for PoAs.

Registration of project activities

Some 7,642 CDM project had been registered as of 28 May 2015. The Board considered a request for registration for which the Secretariat and the Registration and Issuance Team (RIT) had come to differing conclusions in their evaluations or for which the two instances had reached the same decision, but a Board member had raised objection. The Board decided not to register the project.

Issuance and voluntary cancellation of CERs

As of 28 May, a total of 1,594,008,897 CERs had been issued for individual CDM projects and 3,022,372 CERs had been voluntarily cancelled.

Regulatory Matters

Standards and Tools

Request for a revision of a methodology without a draft PDD

In its annual communication to the CMP in 2014, the Board had recommended allowing requests for the revision of a methodology without a draft PDD if the Board deemed it feasible that the request could be processed without project information. The CMP had called for further analyses of the possible impacts and requested the Secretariat to conduct the respective analyses. The analyses confirmed the Board's opinion that project-specific information was not needed in every case. The Board thus decided to submit a respective request to the CMP.

Standardized baselines in the waste sector

The Board considered five standardized baselines (SBs) in the waste sector in five host countries and, after one Board member had raised objection, approved all five:

- ASB0010: Landfill gas capture and flaring in Sao Tome and Principe
- ASB0011: Landfill gas capture and flaring in the Dominican Republic
- ASB0012: Landfill gas capture and flaring in Antigua and Barbuda
- ASB0013: Landfill gas capture and flaring in Belize
- ASB0014: Landfill gas capture and flaring in Grenada.

Procedures

Revision, clarification and update of standardized baselines

The Secretariat presented a revised draft of the procedure for development, revision, clarification and update of standardized baselines (SBs). The Board had requested the revision at EB 76 along with further adjustments at subsequent meetings. At EB 83, the Board had considered a first draft then asked for input and an analysis. Thus in addition to the revised procedure, the Secretariat also presented the results of the analysis which looked at whether SBs may also be submitted if they do not refer to one or more methodologies used to calculate emission reductions achieved with a CDM project.

Regarding submission of SBs with no reference to one or more methodologies, the Secretariat came to the conclusion that this should not be allowed because it could lead to inconsistencies and errors in calculating emission reductions. Apart from clarification, the revised procedure contains requirements which lead to more flexibility in baseline development. These include the combination of various methodologies and tools, and the possibility of deviating from the existing approaches used in baseline development. The Board welcomed the results of the analysis and the revised draft, but called for some slight changes. Rather than approving a combination of methodologies and tools, the Chair said this should be treated as a deviation to enable the Board to evaluate submissions on a case-by-case basis. Once the Secretariat had

incorporated this into the draft version, the Board approved the procedure.¹ The Secretariat was then asked to draft and revise the documents needed to operationalise the procedure. The procedure enters into force on 1 September 2015.

Reclassification of documents

At EB 77 the Board had adopted the revised CDM Executive Board Decision and Documentation Framework, which required all existing CDM documents to be reviewed and reclassified as appropriate. Given that at EB 83, four documents had been reclassified from 'guidelines' or 'guidances' to 'methodological tools', a further four documents were also reclassified:

- Methodological tool: Additionality of first-of-its-kind project activities (version 03.0)²
- Methodological tool: Common practice (version 03.0)³
- Methodological tool: Apportioning emissions from production processes between main product and co- and by-product (version 03.0)⁴
- Methodological tool: Accounting eligible HFC-23 (version 02.0)⁵

¹ The procedure can be viewed at:
<http://cdm.unfccc.int/UserManagement/FileStorage/GJQB LDZI32FMX8HWK10ATP7NVUY6OE>

² Can be viewed online at:
<http://cdm.unfccc.int/UserManagement/FileStorage/Q3R NYMLV6JE7DC4O2BAZ1PU8F0KXT5>.

³ Can be viewed online at:
<http://cdm.unfccc.int/UserManagement/FileStorage/ZX70 JAQUTV34HI1WBGDR9LFNEKOSMC>

⁴ Can be viewed online at:
<http://cdm.unfccc.int/UserManagement/FileStorage/V43I HJG58YXLFB5729OET06WNDZPCA>

⁵ Can be viewed online at:
<http://cdm.unfccc.int/UserManagement/FileStorage/UY9E 5WOJFMDA03HGPNX1K287STLQ6V>

The Board instructed the Secretariat to align documents which referred to the previous versions at the next detailed revision. This allows Version 0.05 of the CDM Executive Board Decision and Documentation Framework to enter into force on 1 June 2015.

Improving direct communications with stakeholders

The Secretariat presented a concept note on improving the stakeholder consultation process. This stemmed from a mandate issued at EB 70. The proposals covered the stakeholder consultation process at local and global level, and the handling of stakeholders' complaints after project registration.

For local-level stakeholder consultations, the Secretariat proposed that the procedure take account of the positive and negative impacts of the project on the environment and the local population. The Secretariat presented additional proposals for selecting the groups to be consulted and dealing with national requirements (such as environmental impact assessments), and recommended developing a two-step procedure which allows for a second round of consultations.

For the global stakeholder consultations, the Secretariat proposed accepting comments in the language of the country hosting the respective project.

As regards handling post-registration complaints, the Secretariat presented two possible options. The introduction of a ten-day commenting period following publication of the monitoring reports and the provision of ongoing opportunity to submit comments through to the end of the project cycle. In both cases, the comments submitted and the answers given by the project developers could be analysed and evaluated by the project DOE or forwarded directly to the Board. For both options, the Secretariat proposed the possibility of informing

the respective DNA and postponing CER issuance for a specific period independent of the DNA's answer.

The presentation of the concept note sparked heated debate. Some representatives of non-Annex I states strongly criticised the Secretariat's approach, saying it had no mandate to develop such far-reaching amendment proposals. Earlier EB decisions on which the concept note was based had been reworded by the Secretariat and steered in a certain direction. This was unacceptable. One Board member said that in future cases of this kind, there should be personal consequences for the Secretariat staff involved.

Looking at the proposals themselves, many non-Annex I representatives made it clear that they went too far. Some proposals involved changing the underlying structure of local stakeholder consultations and these are defined at national level. The aim had been to simplify certain aspects of the existing procedure, not to establish a completely new one. The proposals were also in complete contradiction to the general efforts to simplify and streamline the CDM.

By way of contrast, many other Board members, mostly Annex I representatives, welcomed the concept note in principle and called for the proposals put forward by the Secretariat to be considered individually. There is an urgent need to improve the procedure as a way to improve the reputation of the CDM and increase demand for certificates. The additional effort could thus be justified. The Chair's proposal, to discuss the contents of the concept note in detail, was rejected by the document's critics.

Given the situation, the Board instructed the Secretariat to revise the concept note in time for EB 86. In line with a request from one particular Board member, the information on practical examples should be included in the concept note to highlight gaps in the existing procedure. The cost implications and the complexity

of the proposals should also be taken into account. The Secretariat should also make clear reference to the mandate issued at EB 70. And to reduce the risk of false interpretation of earlier decisions, the Board also decided that from now on, concept notes must cite earlier decisions verbatim.

Policy Issues

Procedure for withdrawing a monitoring report and changing the DOE in the verification phase

The existing procedure only allows monitoring reports to be withdrawn by the publishing DOE. As a result, at EB 83, the Board had received a request from a stakeholder as to whether the withdrawal could be requested by the project developer. In response, the Board asked the Secretariat to assess the possible impact of a change to the procedure. The Secretariat should also look at whether a change of DOE in the verification phase could be allowed because up to now, this has only been possible in the validation phase and no provision exists regarding the verification phase.

The Secretariat presented the results of its analysis and recommended that the Board clarify that where the DOE is changed, the new DOE assumes all roles of the previous DOE and that it is also responsible for requesting the withdrawal of the monitoring report. In addition, the Secretariat proposed including a provision in the PCP which allows the DOE to be changed in the verification phase. The respective changes would be made in the next PCP review.

The Board discussed the Secretariat's proposals. While several members were in favour of introducing the necessary change, one EB member said a change in the DOE during the verification phase could compromise environmental integrity. It is possible that a project developer could switch the DOE if the original DOE's monitoring

results were not to their liking. Against this backdrop, the Board instructed the Secretariat to obtain input from project developers as well as from DOEs. The responses should then be used to draft a concept note for the necessary changes to the regulatory documents.

Relations with Forums and Other Stakeholders

Designated National Authorities

The Co-Chair of the DNA Forum, Juan Carlos Monterrey, presented the DNAs' views on various topics. DNAs are concerned about the fact that the CDM crisis is putting some CDM projects at risk. The market is currently dominated by public buyers and must again place greater focus on private stakeholders. In Africa in particular, and also in some island states, there is a great need for capacity-building measures and some DNAs also require additional support in use of the sustainable development tool.

Looking at the role of the Regional Collaboration Centres (RCCs), the Co-Chair criticised their at times poor commitment and called for the expansion of the geographical coverage and the roles and functions in under-represented regions. The Co-Chair stressed the importance of identifying and exploiting synergies between the CDM, INDCs, NAMAs and the role of the CDM, both prior to and beyond 2020. He also emphasised that top-down development of standardized baselines should be continued. The evaluation of SB submissions gives DNAs the opportunity to develop much-needed capacities and it is therefore important that the associated costs be borne by the Secretariat.

The Co-Chair emphasised the importance of the Global DNA Forum and called for the establishment of a similar forum to coincide with the CPM in Paris at the end of the year. It is vital that this forum take place to give DNAs a platform for exchange and to underline the role of the CDM in this critical year of climate change negotiation.

The Board took note of the Co-Chair's input regarding the DNA Forum and decided that the issue of holding a Global DNA Forum in Paris should be discussed as part of the bi-annual review of the MAP. This would allow enough time for the original decision not to hold a Global DNA Forum in 2015 for cost reasons to be withdrawn.

Designated Operational Entities

Werner Betzenbickler, Chair of the DOE/AE Forum, reported on the agenda from the DOE perspective. The DOEs were critical of the potential opportunity for a published monitoring report to be withdrawn without the publishing DOE being involved. They also criticised the possible changing of a DOE during the verification phase. They believed that a change in DOE could occur as a cost-cutting measure. A DOE switch and the attempt to withdraw the publication of a monitoring report could also be motivated by negative verification results. This could comprise environmental integrity. For this reason, the Forum Co-Chair spoke in favour of only allowing a monitoring report to be withdrawn by the DOE who published it. Betzenbichler also commented on other agenda items and expressed concern that by allowing comments after registration, the Secretariat's proposals for improved stakeholder communications could result in additional costs and financial risks. He also stressed the importance of finding a cost-effective solution for accreditation and said the DOEs had seen little evidence of willingness to take this up. The Board took note of Betzenbichler's input.

Observers

The Board met with a registered observer, who expressed concern regarding the upcoming revision of the PCP, VVS and PS due to the short space of time between the respective revisions. The Board pointed out that although the revision was planned for this year, it would not enter into force until 2016. Also, a grace period was planned to allow existing provisions to retain their validity.

Next meeting

The next EB meeting will be held in Bonn from 20 – 24 July.