

CDM EB MEETING REPORT

EB 88: 7 – 11 March 2016

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Report

CDM Executive Board 88th Meeting

07 – 11 March 2016

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Governance and Management

Board Membership

The Executive Board's composition has changed little compared with the previous year. Two new members, Geraldo Lindo (Jamaica/SIDS) and Julio Alvarez, filled a long-vacant position and that opened up by the departure of Hugh Sealy. Gerald Lindo is an environmental engineer and works in the National Coordination Office for Climate Policy at the Jamaican Environment Ministry. Physicist Julio Alvarez (Dominican Republic/GRULAC) is Technical Director of the National Council for Climate Change and Clean Development Mechanism in the Dominican Republic, which also serves at the DNA.

The Executive Board elected previous Vice Chair Eduardo Calvo (Peru) as the new Chair. Frank Wolke (Germany) was elected Vice Chair. Eduardo Calvo, Professor of Environmental Science at San Marco University in Lima, is known for his particularly investor-friendly approach, especially with regard to simplifying rules and rejecting greater involvement of stakeholders.

Strategic Planning

Partly in a closed session, the Board discussed the future of the CDM in relation to the Paris Agreement. As requested by the CMP, the EB revisited (among other things) the idea of expanding the CDM for other types of use. The Secretariat had prepared a provisional list of all demand sources along with other potential areas of use, such as results-based

financing, green bonds and using CERs for pre-2020 action under NDCs. The Board members requested a more in-depth assessment of the potential for using the CDM proper and not just for CERs. Here, they noted that it is important to list the ways in which the CDM can be developed in relation to specific uses. The Board also felt that the potential for specific uses, such as results-based financing, had been greatly overestimated.

More detailed progress was made in a second discussion on the topic of funding the CDM through international climate financing institutions, which the CMP had also requested in Paris. Among other things, the Secretariat proposed entering into exchange with the GCF to discuss issues such as using the CDM methodologies and the CDM roster of experts under the GCF. The Board members requested the Secretariat to develop concrete proposals as a further working step to drive the topic forward. The Board decided to take up the CMP's proposal of holding a half-day workshop at the upcoming SB session in May. This will be used to discuss how the GCF and other climate financing institutions might use the CDM.

In the CMP Guidance¹, the Executive Board is requested to continue, among other things, with work on simplifying the CDM rules and to develop stand-alone PoA Guidance. With

¹ See http://unfccc.int/resource/docs/2015/cm_p11/eng/08a02.pdf#page=2

regard to the methodologies, digitisation of project documents is to be continued and revisions will be possible in future without reference to a project or PoA. Also, monitoring is to be made more cost-effective and context-specific. The issue of E- policy is to be considered further. A simplified registration process is to be developed for micro-project activities which are deemed automatically additional.

With regard to sustainable development (SD) benefits, communication efforts are to continue to make co-benefits more visible on the platform for voluntary cancellation of CERs and to test the user-friendliness of the SD tool.

In the case of the Regional Collaboration Centres (RCCs), an assessment will be made regarding the extent to which the division of responsibilities and their scope can be expanded without conducting activities outside the CDM.

Simplifying the CDM

The Board discussed the second batch of proposals on simplifying the CDM rules (see EB 87 Report regarding the first package). The Secretariat's revised proposals take in the following issues:

Streamlining registration: although the Executive Board had decided against changing the process when first discussing the matter at a meeting in 2015, the Secretariat was nonetheless asked to obtain input from the PD Forum and the DOE Forum because project developers had strongly criticised the length and unpredictability of the process. Following an in-depth discussion, the Board requested the Secretariat to analyse its current processes for the completeness check and the information and reporting check with a view to shortening the process time and improving predictability. This analysis should focus in particular on project activities which are deemed automatically additional.

Possible exemption from onsite inspections at validation and verification: the Secretariat proposed allowing alternatives to onsite inspections at validation under certain conditions. In the case of verification, initial verification should be binding. The EB members differed in their response to this proposal. One concern was that cost issues would incite PPs to purposely select DOEs that waived onsite inspections. The Board thus requested the Secretariat to consult the DOEs on this matter and then revise its proposal.

Validation and verification by the same DOE: up to now, this option has only been possible in exceptional cases. However, EB 86 had requested both the Secretariat and the Accreditation Panel to perform in-depth analyses. A DOE survey conducted by the Secretariat had shown that a verifying DOE rarely finds that another DOE had made a mistake. The Board nonetheless rejected the Secretariat's conclusion that the process allowed greater scope for flexibility. Consideration could, however, be given to introducing additional criteria which the Board could use to decide on specific cases as needed. The Secretariat will look into this matter further.

Reducing the sample size (for verification) for geographically scattered projects: here, the Secretariat explained that, in principle, a certain degree of flexibility was already provided for, but the relevant details were as yet only to be found in the revised Sampling Guidelines. The Board thus requested the Secretariat to revise the VVS accordingly, develop the Sampling Standard and present it to the Board for approval.

Performance Management

The Board discussed its workplan for 2016. Key activities include finalising the key per-

formance indicators, revising the materiality guidelines, further development of the rules for standardized baselines and top-down development of methodologies, such as for urban sectors, transport and agriculture. See the diagram below for an overview of the workplan for 2016.

The Board discussed the timing of specific activities. Several issues planned for the September agenda had been rescheduled for July. This meant they could be integrated into the report to the CMP which would be approved at the September EB meeting. Among other things, this involved work on consolidating the PoA rules, revising the PS/VVS, sustainable development benefits and an analysis regarding whether measures must be taken to encourage DOEs to participate in the CDM.

Following a suggestion from one of the members, the Board also decided that further development of the concept of additionality must be much more broad-based than the Secretariat has planned to date.

The EB also adopted the workplan for the working groups, which is based on the EB's own workplan.

The Board and its Support Structure

The EB working groups and panels will be led by the following individuals in 2016:

- Arthur Rolle and Martin Enderlin will serve as Chair and Vice Chair of the Accreditation Panel
- Piotr Dombrowicki and Washington Zhakata will serve as Chair and Vice Chair of the Methodologies Panel
- Balisi Gopolang and Diana Harutyunyan are responsible for the Small-Scale Working Group
- Olivier Kassi and Joseph Amougou will head the A/R Working Group

- Kazunari Kainou and José Miguez will serve as Chair and Vice Chair of the CCS Working Group

The Board also named the following as members of the Finance Committee: Amjad Abdulla, Kazunari Kainou, Olivier Kassi, Gerald Lindo, José Miguez and Lambert Schneider.

Platform for Voluntary Cancellation of CERs

The Board discussed in detail the further development of the online platform 'go climate neutral now' – the Board's internet portal for voluntary cancellation (VC). The Secretariat reported on the platform's use so far (almost 600 transactions and 15,000 cancelled CERs) and proposed further measures for its enhancement.

The EB members expressed their scepticism. Many pointed out that the platform is not yet well-enough developed, is difficult to use and is visually complex. The Board thus rejected the proposed large-scale marketing campaign, asking the Secretariat instead to make the platform more user-friendly and expand the payment options. Also, models are to be developed to enable the platform to be integrated into other business processes, such as in booking hotel accommodation. The possibility of an 'express option' is also to be considered. CERs will be selected automatically in this process, but it must be ensured that no preference is given to specific project types. The Secretariat will present its proposals at the upcoming EB meetings. These will include highlighting the sustainable development co-benefits on the platform, as requested by the CMP.

Case-specific Rulings

Accreditation

Five DOEs have voluntarily withdrawn their accreditation status, including a complete withdrawal by DNV for the CDM as a whole.

One DOE was placed 'under observation', because non-conformities detected in assessment had not been corrected. The DOE now has until the end of March to respond and will then be subject to a new onsite assessment.

Registration of Project Activities

Some 7,695 CDM projects were registered as at 11 March 2016, plus a further 291 CDM PoAs.

CER Issuance and Voluntary Cancellation

On 11 March, 1,654,065,797 CERs had been issued for CDM project activities, along with 4,025,128 for PoAs.

9,603,146 CERs have been voluntarily cancelled, of which 15,461 were cancelled using the new platform for voluntary cancellation of CERs.

The Board discussed a contentious case and decided to issue CERs for the PoA "MicroEnergy Credits – Microfinance for Clean Energy Product Lines – India" for the monitoring period 1 January 2013 to 20 June 2015.

Validation and Verification

The Board also discussed applications from DOEs for verification of PoAs for which the same DOE has already performed validation. The Board rejected all three applications along with one for validation and verification of project activities for renewal of a project's second accreditation period.

Regulatory Matters

Standards and Tools

The EB discussed proposals from the Secretariat on further development of the rules for standardized baselines. Among other things, the Secretariat had analysed how the existing rules might be used for different project types and sectors. It had developed scenarios for combinations of three approaches (market penetration, performance and costs/barriers) and looked at how those combinations might be suited for use in selected sectors.

The EB members took note of the proposals, but reminded the Secretariat that its mandate had a different focus. Rather than requesting a one size fits all approach, the mandate expressly called for differing approaches which should only be analysed for selected sectors. If one and the same approach were chosen for many different sectors, they said, there was a great risk of either excluding projects or even – at the other extreme – promoting over-crediting. Also, with so many standardized baselines having been submitted in the meantime, the benefits of a cross-sectoral guideline had become questionable.

The Board thus decided not pursue further development of guidelines for establishment of sector-specific standardized baselines. Instead, it asked the Secretariat to develop standards for specific project types and sectors which are to be proposed by the Methodologies Panel.

The Board also discussed the revision of the sectoral scopes. Although the revision has been completed, transitional problems have

come to light because reclassification under the new scopes can prevent DOEs from continuing to work on specific projects because they lack accreditation for a newly structured scope that has been classified for their particular project. Although this problem has since been solved by means of a grandfathering clause, no overview has been provided regarding classification of the new scopes in relation to methodologies.

This overview should be provided in the new standard 'Applicability of sectoral scopes' discussed by the Board. The EB approved the Secretariat's proposal, but emphasised that the new standard would only become binding at the start of November 2016.

The EB also discussed the rules on Programmes of Activities. The CMP had requested the Board to consider developing stand-alone, consolidated PoA rules. While the Secretariat had developed a number of options in this regard, it became clear during the discussion that the CMP mandate had been interpreted in different ways. Some Board members argued that the CMP had merely requested that existing documents be combined into a single document, meaning that existing documents need only be duplicated. Others believed this led to redundancies, with the risk of the documents not being aligned word for word during review. They felt that two sets of three separate documents were needed: Project Standard/PS, Validation and Verification Standard/VVS and Project Cycle Procedure/PCP – one set for project activities and one for PoAs. Yet others thought that all PoA-related content should be removed and transferred to a document that sets out all the additional steps that need to be taken for PoAs.

Finally, the Board requested the Secretariat to develop the following options:

- Develop two sets of regulatory documents, one for PoAs and one for project activities
- In doing so, combine the PS and VVS into a single document for each set
- The existing PS, VVS and PCP are to be used as the basis, but all subsequent changes to them are to be integrated
- Analyse whether the PCP should be managed separately or as a combined PoA and Project Activities document. In the case of a separate PCP, look at whether the PCP can be simplified for PoAs.

The Secretariat will report on progress made on this matter at the next meeting.

The Board then discussed a standardized baseline for the power sector in Cape Verde. Given that the electricity grids on Cape Verde's nine islands differ greatly from one another, the DNA had initially taken different approaches in calculating their net emission factors – either using the SB Guidelines or using the Grid Tool. One Board member criticised the first approach, saying that the components penetration, performance and costs were difficult to compare in grids which in some cases comprise only two (small-scale) power stations. A revised proposal had thus been presented in which only the Grid Tool was used. The EB decided in favour of the second approach and approved the standardized baseline.

The Board did not, however, approve the revised proposal for a small-scale methodology in the aviation sector (see the EB 87 Report). After discussing the matter in a closed session, the EB asked the Secretariat to further revise the technical aspect of limiting domestic flights and to seek related input from the ICAO.

Policy Issues

The Board discussed the issuance of CERs for A/R projects. Issuance of temporary CERs (tCERs) and long-term CERs (ICERs) is not necessarily dependent on when carbon was actually sequestered. Rather, a fixed period in the project cycle is taken into account – such as 'since the project began' or 'since the last verification report' (in the case of ICERs). This is due to fluctuations that could arise from periodic harvest.

The Board was aware that problems had arisen with projects that covered more than one Kyoto commitment period (CP): tCERs expire at the end of a CP and ICERs from one CP cannot be used by compliance buyers in another CP. The Secretariat thus proposed withdrawing the option for partial transfer.

Although the Board responded positively overall, it was not entirely in favour of some of the arguments put forward. CERs could, they said, still be used for voluntary offsetting and as wind power projects started in 2008 could face a similar situation, inequitable treatment could not be ruled out.

The Board was unable to find a solution to the situation and will address the matter further at the next meeting.

Next, the EB revisited the E- policy debate concerning investment analysis for the additionality check. In a side discussion, a small group of members was unable to reach an agreement. The matter is to be discussed further at future meetings.

Relations with Forums and Other Stakeholders

The Board conducted a video conference with Werner Betzenbichler, DOE Forum Chair. Mr. Betzenbichler commented on the planned streamlining process and referred to problems that could arise if the DOEs are allowed to decide themselves whether to perform on-site inspections for validation. PPs would naturally choose DOEs who waive on-site inspections, he said, and this would not serve the overall system. He did, however, welcome the proposal for one and the same DOE to be allowed to validate and verify a project (this came at the start of the EB meeting). Finally, Mr. Betzenbichler pointed to the financing problems experienced by the DOE Forum and asked whether Annex I States could support the Forum in a similar way to the direct payments made by environmental NGOs.

The Board asked whether the Paris Agreement might affect the DOEs and their continued participation in the CDM given that they play an important role under Article 6. Mr. Betzenbichler said that opinions differed on this issue. Use of the Agreement's mechanisms is five years' away, he said, and in most cases is unlikely to have no great impact on current operational decisions.

Other Matters

Next Meeting

The next EB meeting will be held in Bonn from 7 – 11 May.

Dates for subsequent meetings:

- EB 90: 18 – 22 July (Bonn)
- EB 91: 12 – 16 September (Bonn)
- EB 92: 31 October – 4 November (Marrakesh)