

CDM EB MEETING REPORT

EB 90, 18 – 22 July 2016

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Report

CDM Executive Board 90th Meeting

18 – 22 July 2016

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Governance and Management

Strategic Planning

Report on the latest carbon market and policy developments

The Secretariat presented its report on the latest carbon market and policy developments in the past six months.

Use of carbon pricing mechanisms as a policy instrument is gaining in importance worldwide. It is expected that these mechanisms will soon cover 30 percent of global GHG emissions. Nonetheless, the flexible mechanisms are losing in importance in many jurisdictions because they are focusing on their own measures in efforts to stabilise carbon prices. Also, the flexible mechanisms face strong competition: firstly from the emergence of national and sub-national offsetting mechanisms, and secondly from the fact that reduction potential is increasingly being increased by other means such as direct climate financing. This trend stands in total opposition to increased demand for CDM-like mechanisms which cannot be used as an instrument to implement emission reduction activities in sectors not covered by carbon pricing or to evaluate the impact of climate financing. Both of these options place differing requirements on the CDM and its implementation rules. It is also becoming increasingly clear that greater consideration must be given to future users of the CDM.

Demand for CERs (and ERUs) to meet Kyoto targets has been exhausted: 2.4 million certificates (CERs and ERUs) have been issued

so far. This means that demand from the first Kyoto Protocol commitment period can be fully covered. It is also expected that demand from the second commitment period can also be fully covered.

Having reported on these overarching findings, the Secretariat reported on recent developments in a large number of countries and international organisations (including the ICAO, IMO, GCF und PMR). See the Secretariat's presentation for further details.¹

The Board took note of the reported developments, asking questions only on potential use of the CDM by the International Civil Aviation Organisation (ICAO), which among other things wants to use certificates to achieve its GHG-neutral growth target from 2020. The Secretariat explained that in the current negotiation process, use of CERs and other possible certificates under Article 6 of the Paris Agreement is recommended – partly due to the risk of double-counting of certificates which are not recognised by the UNFCCC. In response to a further question from the Board, the Secretariat clarified that the UNFCCC Carbon Neutral Now platform for certificate cancellation would likely not be used for this purpose. However, the Secretariat added, it is not expected that the ICAO will use the entire CDM infrastructure to initiate projects as the talks focused only on the cancellation of individual CERs.

¹ The presentation is available at: http://customers.metafusion.com/wcm/160718_6027_UNFCCC_CDM-EB_90_Bonn/download/2_2_4_EB90_Market_analysis.pdf

Expanding the scope and scale of RCC assistance activities

The Secretariat presented a concept note on expanding the assistance activities of the Regional Collaboration Centres (RCCs). This involved a diverse range of new activities which the RCCs could additionally implement in future.

The proposed activities included assisting countries in using CDM methodologies, implementing the local stakeholder process and building capacities to use the CDM as a climate finance instrument which can be used in implementing national emission reduction targets.

The Board felt that these last two proposals and others went too far. They did not, for example, take account of the Board decision reached in Paris to use the RCCs primarily under the CDM. The Board also criticised the lack of clarity regarding the cost-related implications of the proposed options. The Secretariat took note of these and other comments, and said it would present the revised concept note at the upcoming EB 91 meeting.

Financing and Use of the CDM by International Climate Finance Institutions

The Secretariat presented a concept note on financing and use of the CDM by international climate finance institutions, which had been requested as part of a CMP11 mandate. In addition to the results of a half-day workshop² on the issue (held by the Subsidiary Bodies in Bonn on 16 May), the concept note contained a range of proposals for activities to be performed by the Secretariat. As the proposed use

² The workshop report is attached to the concept note which is available for download at: <http://cdm.unfccc.int/UserManagement/FileStorage/TN9D3B5504Y6UOPEWQJ2RVCXL87GKF>

of the CDM under Green Bond programmes and crowd-funding initiatives was deemed particularly promising, the Secretariat proposed developing these approaches by means of a range of assisting measures.

The Board criticised the lack of clarity concerning the proposed activities, stating that neither their scope nor their cost-related implications were clear. The Secretariat explained that its role was limited to preparing and drafting information, but admitted that this was not sufficiently explained in the concept note. In the end, the Board asked the Secretariat to revise the concept note in time for the next meeting (EB 91). The revised concept note should also contain details of the anticipated cost-related implications and enable prioritisation of specific measures.

Ensuring continued participation of DOEs, especially in regions underrepresented in the CDM

Given the difficult market conditions for Designation Operational Entities (DOEs), the CMP had instructed the Board in December 2015 to analyse the need to implement measures to ensure continued participation of DOEs and in particular in regions underrepresented in the CDM.

The Secretariat presented a concept note containing a summary of the results of an online survey and of observations from earlier concept notes and reports. In its analysis, the Secretariat came to the conclusion that despite the difficult market conditions and uncertainties, no further measures were needed to ensure DOE participation. The Board agreed, referring to the numerous activities already implemented and those planned for the future. The Board members announced that the issue should be revisited as and when required.

Accreditation fees

The Secretariat presented the results of an analysis which looked at the possibility of accreditation fees being paid as annual payments distributed over the five-year accreditation period. The Secretariat recommended adhering to the current procedure (an initial payment of \$15,000), saying that annual payments would give rise to administrative costs with no notable benefits.

The Board considered both options in a heated debate. While some Board members wanted to follow the Secretariat's recommendation, others felt that DOE interests had not been sufficiently taken into account. Agreement was, however, reached in the form of a compromise: the new rule provides that, in future, the accreditation fee can be paid in two separate payments. The Board asked the Secretariat to work with the Accreditation Panel to prepare a revised draft of the accreditation process, and to present the draft at EB 92.

Performance Management

CDM Executive Board Workplan for 2016

The Secretariat presented the revised Workplan for 2016.³ A total of 19 changes had been made. Among other things, consideration of the following three products was postponed for a later meeting: the CDM registration procedure, the materiality guidelines and digital forms. This had become necessary to enable the regulatory documents to be discussed at this meeting.

³ The workplan is available online at: <http://cdm.unfccc.int/UserManagement/FileStorage/QB6NG7OWJ3209YILEDHRZ1VK8XFPU>

Additional performance indicators

At EB 84, the Board had approved an initial list of key performance indicators to ensure the effectiveness and efficiency of the CDM regulatory framework and its respective bodies (CMP, Board and Secretariat). One such indicator involves the number of project registrations processed in a given period. The Secretariat presented three additional key performance indicators and recommended that they be added to the existing indicator list. The Board discussed the proposals and decided to adopt two of the three indicators, which can be used to monitor both use of suitable communications channels and stakeholder satisfaction regarding communication with the Secretariat.

Report on sustainable development co-benefits of CDM activities

The Board discussed the activities of the Secretariat's communication efforts to raise awareness of the Sustainable Development Tool (SD Tool) and proposals to improve its usability.

The Secretariat presented a range of measures to raise awareness of the tool, the reason being that only 36 of some 7,700 CDM activities have submitted sustainable development co-benefit reports. The Secretariat felt this was due to the low level of awareness for the tool. In their discussions, many Board members were doubtful that lack of awareness resulted in low use of tool. Rather, they said, some projects failed to focus on sustainable development co-benefits. Also, the costs associated with reporting were too high in relation to the desired outcome. By way of contrast, other Board members were in favour of activities that raise awareness as long as their costs do not exceed budget plans. In the end, the Board merely took note of the different activities.

The Board then considered the Secretariat's proposals to improve user-friendliness of the

SD tool. The work performed stems from a CMP11 mandate. The proposals presented by the Secretariat are designed not only to simplify access to the SD tool and assist project developers in completing the various forms. Some of the measures they involve are aimed at making it easier to compare reported data and enable its broader public use.

Some Board members criticised the fact that the approach taken by the Secretariat to improve user-friendliness was not limited solely to project developers. They felt the proposals went way beyond what the CMP mandate had originally designed to achieve. Board members were also sceptical regarding the benefits offered by some proposals in relation to the effort involved in their implementation. For example, it was said that a search feature for individual co-benefits in combination with project characteristics was not needed given the low number of reports.

In the end, the Board decided on a number of measures to improve the report submission and publication process. Among other things, this involves the simplification of access to the online template, assistance in changing, updating and deleting previously submitted reports, and a completeness check. The Board asked for various improvements to the online portal, including automatic saving of entered data, improved data entry instructions, the option to use information already stored in the CDM database (such as contact information) and the structural and content-related harmonisation of the online version of the SD tool with the version contained in the published PDF. By way of contrast, and with the exception of a general search feature for co-benefits, the proposed measures for better identification, categorisation and comparison of reported sustainable development co-benefits were rejected by the Board.

Case-specific Rulings

Accreditation

Three DOEs have conducted regular on-site inspections, while two have successfully completed performance assessments. One DOE voluntarily withdrew their accreditation for Sectoral Scope 9. The Board lifted the suspension for a DOE for Sectoral Scopes 6 and 7, but continued the suspension for Sectoral Scope 8. Another DOE was placed under regular surveillance.

tion and verification for the renewal of the crediting period for a project.

Programmes of Activities

295 PoAs were registered as of 22 July 2016, covering a total 1,956 CPAs. To date, 5,026,950 CERs have been issued for PoAs.

Registration of project activities

7,729 CDM projects were registered as of 22 July 2016.

Issuance and voluntary cancellation of CERs

13,318,355 CERs had been voluntarily cancelled as of 22 July 2016, of which 37,009 were cancelled using the new platform for voluntary cancellation of CERs.

Other decisions

The Board approved a request for renewal of the crediting period for a project. The Board also rejected a request from a DOE for valida-

Regulatory Matters

Standards and Tools

Simplification and streamlining of the CDM

The Secretariat reported on its progress in working on simplification and streamlining of the CDM, and presented six associated measures. Worthy of note are the discussions on exemptions from on-site inspections at validation and verification, and on the conditions under which one and same DOE may both validate and verify a CDM activity.

The **conditions for exemptions from on-site inspections for validation and verification** were discussed at great length. Opinions differed among the Board members, especially regarding the threshold for estimated emission reductions at which on-site inspections should be made mandatory. After much deliberation, the Board decided that on-site inspections at validation should be mandatory when estimated emission reductions exceed 100,000 tCO₂e. The inspections are also to be mandatory when registration-related information must be collected which cannot be verified post-registration. On-site inspections at verification will be mandatory when the respective DOE performs the first verification of a project activity, when more than three years have elapsed since the last on-site inspection or when the CDM activity has generated more than 300,000 tCO₂e since the last verification in which an on-site inspection was performed.

The conditions proposed by the Secretariat under which **validation and verification of a CDM activity can be performed by one and the same DOE** were discussed at length by the

Board. The Secretariat's proposal contained criteria for case-specific evaluation by the Board and the information to be submitted by the DOE. The Board found the evaluation criteria too unspecific and too subjective. It also criticised the proposals concerning the information to be submitted by DOEs, including the requirement to provide proof of having requested offers from three other DOEs. Given their vested interests, DOEs are not the most suitable bodies to request offers from other DOEs. The requirement that only three requests for quotes must be sent out was seen as inadequate. In addition, it was thought that the number of quotes actually received were more important than the number of requests for quotes. The Board thus asked the Secretariat to develop different requirements for use in assessing the availability of other DOEs to perform validation and verification.

Standardised forms for registration of automatically additional projects

The Secretariat presented proposals for changes to project registration forms to allow standardised use for projects considered automatically additional. The Board welcomed the simplified procedures for project developers. However, one Board member pointed out that up to now, the forms had not taken account of all procedures to determine automatic additionality, including the use of standardised baselines. After the Secretariat had made the necessary changes to the draft forms, the Board adopted the revised forms which are available for download as Annex 1⁴,

⁴<http://cdm.unfccc.int/UserManagement/FileStorage/46LJNW79EQ8TY2CO0AMKH1BDXGZ5SF>

Annex 2⁵ and Annex 3⁶ of the UN Meeting Report.

Development of standards for specific project types and sectors

The Secretariat presented a concept note on the development of standards for specific project types and sectors. The presentation stemmed from the EB 88 decision to stop work on SB Guidelines and instead develop SB standards for specific project types and sectors (see EB 88 Report). In the concept note, the Secretariat in conjunction with the Methodologies Panel (Meth Panel)) recommended prioritising the development of standards in the following six sectors:

- Cement and clinker production
- Brick and roof tile production
- Waste management
- Aluminium
- Iron and steel
- Nitrous oxide destruction in adipic acid production

The Board requested additional analyses to enable further prioritisation within the selected sectors. A number of Board members questioned the need to develop the standards and called for an assessment of demand and use of top-down-developed methodologies. The Board commissioned a study as a result. The study is to be conducted in parallel to the sector prioritisation analysis, whose results are to be presented at a future meeting.

⁵<http://cdm.unfccc.int/UserManagement/FileStorage/PTKFJ42IMGXRB6VSNADOLU9C0Z7318>

⁶<http://cdm.unfccc.int/UserManagement/FileStorage/5RVOGK8IXTFW4ZB7HEU1M0AYQC9LSN>

Additionality demonstration

The Secretariat presented a concept note containing an analysis of five approaches for demonstrating additionality.

Worthy of note is the discussion on **the use of probabilistic methodologies**. The analysis was based on the fact that when demonstrating additionality, project developers often rely on investment analyses in which a finance benchmark is defined. This results in a project that lies only marginally below the finance benchmark being classified as additional, while one that lies marginally above the benchmark is excluded from CER issuance. Against this backdrop, the Board considered the introduction of probabilistic methodologies. The introduction of probability-based methodologies would mean a fundamental move away from the binary concept of additionality and would introduce a further level of complexity. And it would not overcome the underlying problem of informational asymmetry in investment analysis. Thus, further analysis of potential uses of probabilistic methodologies by project developers and DOEs was not requested. Instead, the Board took up the suggestion of a Board member and asked the Secretariat, the Meth Panel and the Small-Scale Working Group to consider the use of the concept when developing positive lists.

The Board also discussed the rules on conducting **common practice analysis and first-of-its-kind analysis**, in which CDM activities at the submitted, registered and validation stage are not always considered to the same degree. The Board discussed these and other deficits in the two concepts. This included the fact that the results of the first-of-its-kind test are largely dependent on the control group. If, for example, a project aims at building the first aluminium plant in a small country, it is always treated as first-of-its-kind, even when the technology used is out-dated, because no control group is available. The Board thus asked

the Secretariat to develop proposals to overcome these and other deficits.

The Board then considered the **development of negative lists** with which specific project types with especially low probability regarding their additionality are to be excluded from the CDM. Opinions differed between the various Board members and some Annex I representatives rejected the idea of conducting further analyses on the use of negative lists. Several non-Annex I representatives were, however, fundamentally against the use of negative lists and accused Annex I Board members of wanting to use such measures to prescribe the type of technology to be used by developing countries. In the end, the Board decided not to develop negative lists for the time being.

Another topic for discussion involved **demonstrating prior consideration**, where projects must show that they considered using the CDM at an early stage. Most Board members were against the partial withdrawal of the requirement for demonstration of prior consideration, because it harboured the risk of retroactive crediting of non-additional projects. The effort involved on the part of project developers to demonstrate prior consideration is, however, minimal. The Board thus decided to uphold the current requirement.

The areas in which the Board had requested further work (including common practice analysis and first-of-its-kind analysis) are to be discussed against at a future meeting.

Further development of the CDM in urban sectors

The Secretariat presented a concept note on further development of the CDM for urban sectors and suggested developing guidelines to facilitate the development of urban projects and programmes. The guidelines would contain best-practice examples of completed PoA design documents (PoA-DDs) for different

urban sectors (energy efficiency, waste, traffic). The Board welcomed the proposal and asked the Meth Panel to work with the Secretariat and the Small-Scale Working Group to develop the respective guidelines.

MRV methodologies for measures at budget level

Projects and programmes which are tailored to households or small communities are often confronted with huge challenges in monitoring, reporting and verification (MRV). This is partly due to the regional distribution of measures and also to limited capacities in collecting and managing data. Against this backdrop, the Secretariat presented a number of proposals for cost-effective and context-specific MRV approaches. The Board welcomed some of the measures proposed, including the possibility of being able to close data gaps by submitting a data protocol, and asked the Secretariat and the Small-Scale Working Group to develop a proposal for changes to the regulatory documents. With regard to the proposal on enabling data collection across several projects and programmes, the Board requested that further analysis be conducted on its possible effects.

Cookstove methodologies

The Board considered a number of proposals from the Small-Scale Working Group on revising the cookstoves methodologies. Here, the Board also focused on the share of non-renewable biomass for fuel wood whose quantities are reduced by the implementation of cookstove activities. To quantify that share, the Secretariat had developed country-specific default values for several underrepresented regions. Recently published research results indicate, however, that these default values

overestimate the share of non-renewable biomass.⁷ If these default values are used to calculate the emission reductions achieved with cookstove projects in these regions environmental integrity could be undermined.

Because the validity of these default values has not yet been agreed, the Board decided to limit their validity to five years. New default values must be submitted in the form of standardised baselines. The Secretariat and the Small-Scale Working Group were asked to use a top-down approach to develop guidelines and methodologies for use in developing the default values.

A further proposal from the Small-Scale Working Group focused on expanding the scope for use of cookstove activities to projects involving a switch from non-renewable biomass to low-carbon fossil fuels like natural gas. Opinions differed among the Board members as to the associated risks to environmental integrity. The Board thus asked the Small-Scale Working Group to conduct further analysis on the possible effects.

⁷ The study cited by the Secretariat is available at: <http://www.nature.com/nclimate/journal/v5/n3/full/nclimate2491.html>

Relationships with Forums and Other Stakeholders

Visit by Patricia Espinosa

When opening the 90th meeting of the CDM Executive Board, the Board members welcomed Patricia Espinosa, who had paid the Board a visit on her fourth working day as Executive Secretary of the UNFCCC Secretariat. Ms. Espinosa praised the achievements made by the CDM and ensured the Board that it could continue to rely on the Secretariat's support in the future. Following the adoption of the Paris Agreement, she said, the attention of countries and the global public had now turned to implementation, and not least the new Sustainable Development Mechanism and non-market-based approaches. At national level, the task at hand is to transpose NDCs into action plans to improve both the climate change effort and societal wellbeing. The Parties should thus take account of the related successes achieved with the CDM.

Given the collective efforts to adapt to changing requirements and to support the Agreement's implementation, Ms. Espinosa said she believed that the Parties would recognise the Board's expansion efforts and that private and public investors would be looking for investment opportunities. This gives the Board an important opportunity to continue to make a key contribution in the future, she said.

Assisting DNAs in local stakeholder consultations

The Secretariat presented a proposal for a process to assist DNAs to develop guidelines for

implementing local stakeholder consultations in their respective countries. The work involved stems from a request from Haiti.

When discussing the proposed process, Board members differed in their opinions regarding the degree of assistance to be provided by the Secretariat. While some Board members called for DNAs to receive intensive support throughout the entire process, others argued in favour of a lesser degree of support and found that the Secretariat's proposal went too far. After much debate, the Board agreed on a phased approach which initially provides for exchange of information between DNAs and the Secretariat, and then at a later date gives the DNAs the opportunity to request assistance when dealing with specific issues. This adjustment to the Secretariat's proposed process should also reduce costs and ensure that the process lies in the hands of the DNAs.

Designated Operational Entities

The Board interacted with Werner Betzenbichler, DOE/AIE Coordination Forum Chair, via video conference. Mr. Betzenbichler gave the DOE perspective on several agenda items, including the Secretariat's proposal to allow probabilistic methodologies in additionality demonstration. The DOE/AE Chair welcomed this initiative in principle, but expressed concern regarding the complexity of the process and the associated rise in validation costs.

Mr. Betzenbichler also commented on the accreditation procedure, saying that in order to

clarify and resolve issues of non-conformity, the DOEs would like to be able to communicate directly with the Assessment Team. This would mean revising the accreditation process.

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The Board thanked Mr. Betzenbichler for his input and welcomed the fact that, despite the poor DOE membership figures, his position as DOE/AE Coordination Forum Chair had been secured for 2016.

Observers

There was no exchange with observers due to lack of demand.

Other business

Next meeting

The next meeting will be held in Bonn from 13 to 17 September 2016.