

CDM EB MEETING REPORT

EB 91, 13 - 16 September 2016

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Report

CDM Executive Board 91st Meeting

13 – 16 September 2016

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Governance and Management

Strategic Planning

Recommendations to the CMP on expanding use of the CDM to other areas

The Board revisited this topic after last discussing it at EB 88 and 89. The Secretariat presented a revised concept note containing the various types of use and the associated measures that would be needed.

In particular, the Secretariat's proposal to allow CERs to be used in implementing Nationally Determined Contributions (NDCs) sparked heated debate. One Board member pointed out that use of pre-2020 CERs in NDC implementation could undermine the environmental integrity of the Paris Agreement. Another Board member, however, explained that as NDCs are nationally determined, there are no restrictions on how they are to be achieved. Following intensive consultation in a closed session, the Board finally agreed to recommend to the CMP that the CDM initially be analysed further regarding its role under the Paris Agreement. Other recommendations to the CMP concerning broader use of the CDM include approving the use of CERs in national emissions trading schemes, use of the CDM as an MRV tool in climate financing and with finance products (green bonds), voluntary cancellation of CERs by aviation companies and broader use of the Climate Neutral Now voluntary cancellation platform.

Financing and using the CDM by international climate finance institutions

The Secretariat had already proposed a number of activities for financing and using the CDM by climate finance institutions at EB 90. Given the Secretariat's vague role and the associated budgetary implications, the Board had requested a revised concept note which enabled prioritisation of specific proposals (see the EB 90 Meeting Report). The Secretariat proposed focusing on the promotion of green bonds and crowdfunding. After much deliberation regarding the Secretariat's exact role, the Board gave the Secretariat a mandate to implement the supporting activities.

The Secretariat will thus support international climate finance institutions in using and financing the CDM, for example with green bonds (Paris Bonds) which can be used to verify emission reductions under the CDM and thus support both refinancing of registered projects and development of new CDM activities. The assistance should, in the main, involve the provision of information and exchange of experience. And as expressly required by the Board, the Secretariat will not promote specific products and instead will merely encourage use of the green bonds and crowdfunding concepts. The Secretariat will play no role in the selection of projects to be funded – responsibility lies solely with the finance institutions.

Expanding RCC assistance activities

As EB 90 had already discussed and requested changes to the Secretariat's first proposal on expanding the assistance activities performed by Regional Collaboration Centres (RCCs), the Secretariat presented its revised proposal. The newly proposed fields of activity include assisting DNAs in collecting data for use in developing standardised baselines (SBs) and activities to increase use of the voluntary cancellation platform. As requested by EB 90, the revised concept note also contained a statement regarding the associated increase in costs.

The Board accepted the Secretariat's proposal to expand RCC activities, but pointed out that there are overlaps between the proposed activities and specific areas of thematic focus (such as standardised baselines and the Climate Neutral Now platform). Such overlaps were to be avoided in future. While the Board supported the approximate 10 percent increase in budget associated with the activities, it reserved the right to discuss the matter during talks on the CDM Management Plan (MAP) 2017.

Performance Management

EB Report to the CMP

After a number of minor changes had been made to the Secretariat's draft, the Board approved its annual report to the CMP. These included shortening the section on RCCs, the inclusion of additional figures to better illustrate CDM trends and changes to the actual wording. Once the decisions made at this current meeting (EB 91) have been incorporated into the report, it will be published on the UNFCCC website.

CDM Loan Scheme

The Secretariat presented the findings of an evaluation of the CDM Loan Scheme along with various proposals for recommendations to the CMP concerning how to proceed with the Loan Scheme in future.

The findings of the evaluation indicate that the Loan Scheme has increased participation of countries underrepresented in the CDM. However, given the current low CER price, many projects face the risk of not being able to repay their loans. This particularly affects projects in which CER revenue is a key source of income, as is the case with cookstove PoAs.

Against this backdrop, the Secretariat made a range of proposals for a recommendation to the CMP concerning how to proceed with the Loan Scheme. The Board thus decided to recommend to the CMP that the Loan Scheme should not be withdrawn completely, but for the time being to refrain both from granting new loans and from commissioning successor organisations to implement the scheme.

In cases where repayment of existing loans is extremely unlikely, a case-by-case assessment should be performed to see if the debt can be waived. The current implementation organisation, UNOPS, and the Secretariat should work closely with all project developers wanting to continue their activities to enable the projects to progress through the CDM project cycle. The recommendations will be forwarded to the CMP together with the latest statistics on the CDM Loan Scheme. The CMP will decide in Marrakech on the future of the scheme.

Case-specific Rulings

Accreditation

The Board did not discuss accreditation-related cases.

Programmes of Activities

296 PoAs were registered as of 16 September 2016, covering a total 1,966 CPAs. To date, 5,289,691 CERs have been issued for PoAs.

Registration of Project Activities

7,733 CDM projects were registered as of 16 September 2016.

Issuance and voluntary cancellation of CERs

1,717,676,373 CERs had been issued for CDM projects as of 16 September 2016 and 13,726,845 CERs were cancelled voluntarily. Of these, 41,466 were cancelled using the new Climate Neutral Now platform for voluntary cancellation.

The Board considered two requests for CER issuance and approved issuance for those projects:

"Tunlan Coal Mine Methane Utilization Project, Shanxi Province, People's Republic of China" (3067)

"Malan Coal Mine Methane Utilization Project" (3180)

Regulatory Matters

Standards and Tools

Revision of regulatory documents

The Secretariat presented its draft for PoA-specific regulatory documents and its proposals on revising the Project Standard (PS), the Validation and Verification Standard (VVS) and the Project Cycle Procedure (PCP) for CDM project activities.

The Board discussed the various aspects of regulation, including the requirements for DOEs wanting to perform both validation and verification of a CDM activity. The Board decided that DOEs themselves can decide which information they provide to demonstrate that in the host country, no alternative DOE is available to perform the checks. To ensure impartiality at verification, individual employees who were involved in a project's validation should not be involved in its verification.

The Board requested the Secretariat to check whether, in contravention of the existing rules, the local stakeholder consultations could also be conducted after the start of a project or PoA. Here, the Board was responding to criticism expressed by the Project Developer Forum that the existing requirement is impractical. With regard to the structure of the regulatory documents, the Board decided to separate the PCP for PoAs from that for individual CDM activities. The decision on the potential consolidation of PS and VVS was postponed for a future meeting. The Secretariat had pointed out that there was not enough time to prepare a draft outlining the consolidation process in time for the next meeting and that the process would thus be delayed. As a result, the Board

asked the Secretariat to prepare six documents for consideration at the next meeting: PS, VVS and PCP, each with versions for PoAs and individual CDM activities.

Streamlining the CDM

In response to a request issued at EB 90, the Secretariat presented an analysis of the current and past processes for registration and CER issuance which is to be used to find ways to streamline the two processes. In its analysis, the Secretariat concludes that streamlining of process timelines would not result in any notable benefits, but would entail considerable administrative effort.

One Board member expressed strong doubts about this analysis, however, saying that the period of time available to the Secretariat to review the submitted documentation is disproportionately long and should be shortened. Other Board members agreed only in part. In the end, the Board decided that the issue should be revisited at the first EB meeting in 2017, when greater clarity will exist regarding the other reform activities and their associated costs.

Use of top-down methodologies

The Secretariat presented an analysis on the use of top-down methodologies which had been requested at EB 90. In its analysis, the Secretariat comes to the conclusion that top-down methodologies are being used intensively, especially in underrepresented regions and in PoAs, leading to better regional distribution of the CDM and stimulating new climate change effort potential. Also, the costs involved

in developing top-down methodologies are significantly below those involved in bottom-up methodologies.

Numerous Board members expressed strong criticism of the analysis, saying there were great differences between the various top-down methodologies, some of which were hardly ever used or not used at all. No analysis findings had been presented on this particular point, even though the Board had explicitly requested a detailed methodology analysis. Some Board members also found the costs of developing top-down methodologies considerable, because they must be financed entirely by the UN, while bottom-up methodologies are financed by the private sector. In the end, the Board took note the findings of the analysis and requested no further work.

Policy Matters

E-Policies

In a closed session, the Board revisited the issue of e-policies in additionality demonstration. Despite forming a small working group, the Board was unable to reach a consensus and the issue is to be passed back to the CMP.

Relationships with Forums and Other Stakeholders

Nairobi Framework Partnership

The Secretariat reported on the most recent developments in the Nairobi Framework Partnership (NFP). Along with the numerous activities conducted under the partnership in 2016, another issue particularly worthy of note is the updated Terms of Reference implemented at the start of the year in response to the outcome of the climate change conference in Paris. With its new Terms of Reference, the NFP has expanded its activities to enable it to support developing countries in implementing their NDCs – for example by building capacities for the use of market-based mechanisms such as the CDM. This has already had an impact on some activities, including the provision of technical support for NDC development, measures to integrate market mechanisms into NDCs and workshops on the cooperation mechanisms contained in Article 6. The NFP will submit its report on activities conducted in 2016 to the Board at the beginning of 2017.

Designated Operational Entities

The Board interacted with the DOE/AIE Coordination Forum Chair, Werner Betzenbichler, via video conference. Among other things, Mr. Betzenbichler told the Board that some DOEs had reported shortcomings in the Secretariat's review of project documentation. In some cases, documents had been requested which had already been submitted. Also, the DOEs had come to realise that the UN employees assigned to document review did not possess sufficient sectoral knowledge for the task. Mr. Betzenbichler said he believed that the

shortcomings were possibly a result of the downsizing of UNFCCC staff. The cases have, however, caused concern among the DOEs regarding the quality of the reviews and ensuring that all firms wanting to participate in the market will be subject to the same conditions. The Board took note of the matter and asked Mr. Betzenbichler to report any further details to enable the extent of the shortcomings to be assessed.

Other Business

Climate Neutral Now

The Secretariat reported on a Climate Neutral Now event held in September in New York. The event was used to mark the first anniversary of the voluntary platform for cancellation of CERs and also to announce new platform supporters, one being the International Football Association, FIFA. While most Board members welcomed such events, some questioned whether the financing of promotional events of this kind was justified given the tight budget and especially as it was unclear whether they led to increased use of the Climate Neutral Now platform.

The Secretariat pointed out that the impact of such events cannot be assessed at the present time. However, it can be expected that the platform will see increased use during the upcoming FIFA World Cup.

Next Meeting

The next meeting will be held from 31 October to 4 November in Marrakech in the lead up to COP22.