

CDM EB MEETING REPORT

EB 92, 31 Oct. - 4 Nov. 2016

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Report

CDM Executive Board 92nd Meeting

31 October – 4 November 2016

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Contents

- Governance and Management 1**
 - Strategic Planning..... 1*
 - Carbon market developments 1
 - Performance Management 2*
 - Management of the Board and Secretariat 2*

- Case-specific Rulings 3**
 - Programmes of Activities 3*
 - Registration of project activities..... 3*
 - Issuance and voluntary cancellation of CERs..... 3*

- Regulatory Matters..... 4**
 - Standards and Tools..... 4*
 - Revision of PS, VVS and PCP 4
 - New methodologies 5
 - Revision of methodologies 5
 - Accreditation procedure 6

- Relationships with Forums and Other Stakeholders 7**
 - Next Meeting..... 7*

Governance and Management

Strategic Planning

Carbon market developments

The Board received an update from the Secretariat on the latest carbon market and policy developments. Two developments were of particular importance: the Kigali Amendment to the Montreal Protocol and the ICAO decision to introduce a market-based offsetting mechanism. The Kigali Amendment provides for an 80-85% reduction in the production and use of HFCs by 2047. Industrialised countries are to begin their reduction efforts in 2019, while one group of developing countries with high levels of HFC production and use are to freeze production in 2024 and then begin a phased reduction in 2029 (China, Brazil, Africa and others). For a second group of developing countries, freezing of production starts in 2028 and actual reduction in 2032 (among others, India, Iran, Iraq, Pakistan, Saudi Arabia, and Kuwait). These combined efforts could reduce anticipated global warming by up to 0.5 °C.

22 HFC projects have been registered under the CDM (11 in China, 8 in India and one each in Argentina, Mexico and South Korea). The initial impact in China is such that the Chinese government has announced that all HFC facilities must destroy HFC gases, meaning that CERs can no longer be issued. The projects in India have a fixed 10-year accreditation period, the last of which began in 2011. These activities are thus unaffected by the Kigali Amendment. The Secretariat will conduct an analysis of other projects with renewable accreditation periods.

The International Civil Aviation Organisation (ICAO) had recently decided to achieve its 2020 carbon-neutral growth target by means of an offsetting mechanism (now known as the Carbon Offset and Reduction Scheme for International Aviation, or CORSIA) and had agreed on initial rules. These involve a phased introduction:

- A voluntary pilot phase from 2021 to 2023
- The first, phase – again voluntary – from 2024 to 2026
- The second, mandatory phase from 2027 to 2035 (with exceptions for LDCs)

66 countries have already announced that they will participate in the pilot phase. The Secretariat thus expects demand in the following amounts:

- in 2025: ~174 million tCO₂eq
- in 2030: ~230 million CO₂eq
- Overall demand 2020-2040: ~7.8 billion CO₂eq

CERs and units generated from Paris Agreement mechanisms have 'privileged eligibility'. Concrete eligibility criteria will be developed in 2018.

For the most part, the Board discussed the question of whether or not the EB should welcome the developments concerning the Montreal Protocol and the ICAO. The assessments, and especially the ICAO decisions, deviated greatly from one another and, after heated debate, the Board decided against welcoming the developments. The Board instructed the Secretariat to monitor developments concerning

CORSIA and to continue collaboration with the ICAO on methodology-related issues.

The Board also heard a report from the Secretariat on the dramatic decline in revenue received to cover administrative costs (share of proceeds, or SOP). Outstanding payments of SOP issuance fees currently exceed USD 38 million. This is a response to the market crisis because although CERs are being issued to project developers, their sale is more than uncertain and project developers are holding back with SOP payments. The Secretariat proposed changing the timing of collection of SOP issuance fees so that payments are made before CER issuance is due. A corresponding concept note will be presented at the next EB meeting.

Performance Management

At the recommendation of both the Accreditation Panel and the Secretariat, the Board decided that DOE performance monitoring should continue to be kept on hold. However, the Secretariat was asked to continue collecting raw data from the registration and issuance process to enable assessments to be made at a later date.

Management of the Board and Secretariat

In a closed session, the Board discussed its Management Plan for 2017. At USD 19.6 million, the MAP budget is more or less the same as for 2016. As a cost-saving measure, funding for the Global DNA Forum will be cut and will now concentrate on countries with less than ten registered CDM project activities.

The plan has two objectives: effective and transparent administration of the CDM, and increasing demand for the CDM. Among other things, the latter involves increasing use of the platform for voluntary cancellation of CERs. Marketing of the CDM as an MRV tool for emis-

sion reduction activities outside the CDM will also be pursued.

In relation to the first objective the Board will continue its streamlining efforts in addition to its regular work. This will include simplification of the methodologies and further development of the standardised baseline rules. The Secretariat was thus asked to prepare concept notes on the following issues and present them at the next meeting:

- Increasing voluntary cancellation of CERs.
- Improving the user-friendliness of the UN-FCCC CDM website.
- Merging of the Methodologies Panel (MP) and Small-Scale Working Group (SSC WG).

Case-specific Rulings

Programmes of Activities

298 PoAs were registered as of 4 November 2016, covering a total 1,995 CPAs. To date, 6,702,339 CERs have been issued for PoAs.

Registration of project activities

7,743 CDM projects were registered as of 4 November 2016. This represents an increase of 10 projects since the last EB meeting.

The Board discussed a controversial case and decided not to register the project activity “Clinker Optimization in cement types production at Derba MIDROC cement plant”.

Issuance and voluntary cancellation of CERs

1,734,405,508 CERs had been issued for CDM projects as of 4 November 2016 and 15,256,638 CERs were cancelled voluntarily. This represents an increase of 16 million and 1.5 million CERs respectively. Of these, 43,971 were cancelled using the new Climate Neutral Now platform for voluntary cancellation.

Regulatory Matters

Standards and Tools

Revision of PS, VVS and PCP

As part of its streamlining activities, the Board discussed changes to the CDM regulatory documents (Project Standard, Validation and Verification Standard, and Project Cycle Procedure) in relation to stakeholder consultation and the rules for deregistration of PoAs.

With regard to stakeholder consultations, the issue at hand was the timing of local stakeholder consultations (LSCs). In 2015, the Board had decided that LSCs should be held and completed before project activities begin.

This ruling excludes projects in which LSCs have begun but have not been completed when a project activity begins. In addition, the Secretariat expressed concerns that at such an early stage in the project cycle not enough information would be available to enable meaningful consultation. Also, in some countries, a PDD must be presented at the LSC and this could further complicate the process.

After much debate, the Board decided on the following rule: if Party rules exist, they must be observed. Where they do not exist, LSCs must take place before the start date of the project activity. In both cases, consultations must be held no later than before submitting the PDD or PoA-DD/CPA-DD to a DOE for validation.

With regard to deregistration of PoAs, the Board was unable to decide on a common position. Some Board members expressed strong concern that it would be impossible to convince all developers of the CPAs in a PoA to deregister their projects voluntarily. The Board

thus decided not to introduce this process for the time being.

The Secretariat will integrate these changes into the regulatory documents. A decision on when the changes will go into effect (they were the final stage of a comprehensive review) was postponed until the next meeting due to lack of time.

At the request of the CMP, the Board discussed ways to make MRV more cost-effective, especially in households and municipalities. Special focus is to be placed on how to deal with a lack of data and possible use of nationally and regionally-collected data. Based on discussions held at EB 90, the Secretariat had submitted proposals concerning a data handling protocol and random surveys covering multiple POAs.

The Board welcomed the proposals, but asked the Secretariat to conduct further assessments, including on the idea of random surveys. The EB believed there was a risk that, when correcting a generous CER issuance, difficulties could occur when trying to allocate responsibilities.

The Board also discussed the Secretariat's concept note on expanding the application of the combined tool to identify the baseline scenario and demonstrate additionality. The Board agreed with the approach and asked the Secretariat to prepare a revised version of the tool for presentation to the EB. The changes largely involved the benchmark analysis to enable more precise identification of the most attractive options. The Board instructed the Secretariat to ensure that, when preparing the new proposals, they do not add unnecessary burden for project participants.

The Board then considered the Secretariat's proposals for the development of possible top-down methodologies for the agricultural sector. Based on previous discussions, the Secretariat had identified two areas which it proposed as fitting candidates: (I) measures to reduce emissions in grazing and livestock husbandry, and (II) the achievement of emission reductions by means of efficient food processing and/or storage.

Neither proposal met with Board approval. Many Board members found the project ideas too academic and expressed doubts regarding their feasibility. Many Board members also pointed to the current situation regarding demand. Given the need to achieve methodology-related budget savings (see MAP), the Board decided not to develop top-down methodologies in this area.

New methodologies

The Board approved two new CDM methodologies. These included *AM0117: Introduction of a new district cooling system*, which replaces air conditioning systems in individual residential and commercial buildings.

The second new methodology, *AM0118: Introduction of low resistivity power transmission line*, covers the installation of new and more efficient low resistivity high voltage alternating current power transmission lines and/or the replacement of existing power transmission lines to reduce power losses in transmission and achieve emission reductions.

Revision of methodologies

The Board revised several methodologies and tools, including the "Methodological tool: Investment analysis". The revision contains a list of host countries where the cost of equity may be calculated using the capital asset pricing model (CAPM), and updates the default values for the cost of equity.

The Board discussed the revision of "ACM0001: Flaring or use of landfill gas" in quite some depth. In the past, the methodology had contained a positive list which led to simplified automatic additionality under certain conditions; this largely involves the existence of national rules on landfill sites and whether flaring or use of landfill gas is allowed. Based on these rules, the Secretariat had prepared a positive list in 2013, and that list was now the subject of review.

The debate became heated following a question from the Brazilian representative as to whether this could be seen as "temporary additionality". This is not provided for in the modalities and procedures, he said, and could at the most be laid down in a tool, but not in a methodology. He also expressed uncertainty regarding the parameters to be used in the review. Other Board members believed that not the projects, but the methodologies should be reviewed once every three years. Other questions were raised concerning this procedure.

Finally, the Board decided not to conduct the revision. The Secretariat will instead assess the modalities for updates of positive lists and prepare proposals for an appropriate methodological tool.

The Board approved the revision of the following methodologies:

- ACM0014: Treatment of wastewater
- AM0048: New cogeneration project activities supplying electricity and heat to multiple customers
- AM0107: New natural gas based cogeneration plant
- ACM0026: Fossil fuel based cogeneration for identified recipient facility(ies)
- AMS-III.F: Avoidance of methane emissions through composting
- AMS-III.Y: Methane avoidance through separation of solids from wastewater or manure treatment systems

Accreditation procedure

The Board approved minor changes to the accreditation procedure. These require that all DOEs be subject to at least three performance assessments within the five-year accreditation period. The accreditation fees may only be paid in two instalments. A number of editorial changes were also made.

Relationships with Forums and Other Stakeholders

As usual, the Board consulted with Werner Betzenbichler, Chair of the DOE Forum, on auditors' needs. Mr. Betzenbichler brought the Board's attention to the upcoming UNFCCC negotiations and, on behalf of the DOE Forum, suggested that options should be created to enable current CDM project activities to be recognised under the Paris Agreement. He believed this would provide an additional incentive for the carbon market and would combat the loss of expertise. When asked about the DOE Forum's activities in the coming year, Mr. Betzenbichler explained that the Forum is currently in negotiations with the aim of securing financing for the Forum's activities. Should the negotiations fail, the Forum would have to cease its operations. Mr. Betzenbichler was, however, optimistic that the financing could be secured.

The Board took note of input on the Forum's annual report as provided by its co-chair Mr. Albert Magalang (Philippines). Mr. Magalang emphasised the importance of networking activities, such as those of the Global DNA Forum, which had convened again in 2016 following a year-long break. He also underlined the role of the Regional Collaboration Centres and especially the support they provide in developing standardized baselines.

The meeting was not attended by observers.

Next Meeting

The next meeting will be held in February 2017.