Review of the CDM Modalities and Procedures

Outcomes of the SBI Workshop (Bonn, Germany, 8–9 June 2013)

Workshop on enhancing the regional distribution of CDM projects in Asia, the Pacific, and Eastern Europe
Manila, Philippines
4 - 5 September 2013
Outline

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   a. Accreditation of DOEs
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1. Background

- **Decision 5/CMP.8 (Doha)** → Pursuant to decision 3/CMP.1 (Marrakesh text), the first review of the CDM modalities and procedures (M&P) shall be carried out at CMP 9

- **Request the CDM Executive Board to submit recommendations for SBI 38 (Bonn, June 2013) on possible changes to the CDM M&P** drawing upon experience gained by:
  a) CDM Executive Board
  b) UNFCCC secretariat
  c) Stakeholders

- **Summary of 15 responses received in the call for public inputs**
  (17 December 2012 – 23 January 2013)
  → Annex 2 to annotations EB72

- **Experience report of the UNFCCC secretariat**
  → Annex 1 to annotations EB72
### Areas of stakeholder inputs received by the Board

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### PROJECT CYCLE AND METHODOLOGIES

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A number of issues appear several times through the submissions:

- Credibility and confidence in the CDM is dependent on the robustness of its regulatory framework
- Environmental integrity remains key feature
- Whether the current CDM governance architecture remains the most effective going forward
- Benefits would accrue from further simplification/streamlining of rules and processes
- Building on the existing foundation should be the basis for revision
- Need to ensure that the modalities and procedures provide clear structure for innovative developments, such as PoAs and standardized baselines
2. Summary of stakeholder submissions and decision by the CDM Executive Board

• Mandate in CMP 8 refers to review of Modalities and Procedures (M&P) for CDM (decision 3/CMP.1). But there are 4 additional M&Ps:
  – **Simplified M&P for small-scale CDM project activities** (decision 4/CMP.1 (annex II))
  – **M&P for A/R project activities** (decision 5/CMP.1)
  – **Simplified M&P for small-scale A/R project activities** (decision 6/CMP.1)
  – **M&P for CCS project activities** (decision 10/CMP.7)

• **Recommendations of the EB refer to all M&P, except CCS because:**
  – Interrelated nature of different M&Ps
  – Changes to 3/CMP.1 will have implications for other M&Ps
  – Reviews of M&Ps (except for CCS) are due

• **Further recommendation: alignment of M&P to 2012 Kyoto Protocol amendments needed** (GWP, NF$_3$ inclusion)
2. Summary of stakeholder submissions and decision by the CDM Executive Board

• Recommendations by the Board do not address all inputs because:
  – Board did not agree with the idea
  – Board agreed the idea but can be addressed without changing M&P
  – Board could not reach agreement within the time available

• All submissions were considered, and most were incorporated
3. Summary of discussions during SBSTA Workshop

• Work was divided in three focus areas:
  ➢ Accreditation
  ➢ Project cycle and methodologies
  ➢ Governance

• Participants were able to raise additional issues not covered in the submissions nor in the Board’s recommendations

• Full report: http://unfccc.int/resource/docs/2013/sbi/eng/inf06.pdf (and in your USB drive)
3.a Possible changes in Accreditation

- **Significant deficiencies**
  - **Differentiate by the cause** of excess issuance of CERs: professional negligence, fraud and all other reasons, with differentiated consequences, and **limit liabilities** for DOEs and make them quantifiable
  - Possible solutions for offsetting excessively issued CERs

- **Promotion of regional distribution of DOEs**
  - **Take into account**: distribution of DOEs is a result of market force and not of regulations, auditing capacity needs to be strengthened in developing countries, and many DOEs are operating with local offices in developing countries

- **Alignment of accreditation principles CDM/JI**
  - Align the accreditation processes of CDM and JI into a single system

- **Contractual relationship between project participants and DOEs**
  - Removing the condition that a DOE has to have a contractual relationship with the project participants may reduce transaction costs of CDM project activities by increasing flexibility in contractual relationship
3.b Possible changes in Project Cycle and Methodologies

- **Length of crediting period**
  - Flexible approach to length of crediting period, taking into account different factors such as technologies, project types or barriers.
  - Concern that at the renewal of the crediting period, the validity of the baseline needs to be assessed.

- **Materiality**
  - M&P should include materiality, but further guidance could be done at Board level, including whether to apply it to validation and PoAs too.

- **Stakeholder consultation/Communications with the Board**
  - Stakeholder consultation could take place through the project life cycle.
  - National sovereignty is key in this issue, balance between international guidance to DNAs and existing national legislation.

- **Sustainable development co-benefits**
  - Board tools should be available to assist DNAs in assessing SD co-benefits.
  - Concerns raised about applying the SD requirements to all countries, or making them compulsory.
3.b Possible changes in Project Cycle and Methodologies (cont.)

- **Programme of activities**
  - M&P should include a separate section for PoA
  - Streamline/flexible procedures for CPA inclusion, further analysis on the monitoring requirements and applicable monitoring periods
  - It is premature to consider migrating PoAs under NAMA framework; requires further analysis and greater elaboration of NAMA modalities

- **Standardized baselines**
  - Standardized baselines should be included in M&P,
  - Standardization can be extended beyond baselines to additionality; further stages of the project cycle; or even stakeholder consultation requirements
  - Further analysis needed on whether validation steps could be eliminated for projects using standardized baselines;
  - Concerns raised about challenges on DNA’s capacity to deal with increased responsibility under standardized baselines process

- **Additionality**
  - Work on positive lists and tools for demonstration of additionality, common practice, first of its kind, technology penetration, E+/E- policy, others
3.c Governance

➢ **Role of the Board**

- Further clarify the strategic and policy nature of the Board’s supervisory role including through describing functions

➢ **Membership of the Board**

- Include provisions on the expertise needed for the Board in the M&P, make nomination process more transparent
- Board members should have diversity of expertise so that the Board can competently perform its functions as a whole
- Consider further having members from the private sector/civil society (in their personal capacities); may need to be nominated by Parties
- Improving gender balance in the Board should be encouraged
3.c Governance – related to DNAs

➢ Host Party DNA approval and oversight

• Further elaborate the role of the DNAs, prior to project registration and during project implementation

• Include definition of Host Party approval and minimum content of letters of approval, including the validity period for the approval and conditions of withdrawal

• Include process for withdrawal or suspension of letters of approval

• DNAs to provide information relevant to projects, such as national regulations that projects must follow and E+/E- policies

• Roles of host Party government and its DNA should be distinguished
Next steps

• Discussions are ongoing among stakeholders, but official inputs into the process are closed.

• SBI to consider the recommendations contained in the report during its session in Warsaw.

• CMP 9 to make a decision in November, in Warsaw.
THANK YOU!

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2 – 3 September 2013