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Submission by ClimateNet on behalf of the “PoA Working Group” on the review of the modalities and procedures for the Clean Development Mechanism (CDM M&P) as requested by 4/CMP.9, taking into account the implications elaborated in the technical paper of the secretariat (FCCC/TP/2014/1).

This submission reflects the view of the organization as a whole.

Introducing the PoA Working Group:

The CDM Programme of Activities (PoA) Working Group (“PoA Working Group”) was established on the initiative of Perspectives Climate Change GmbH (Perspectives) with financial support of the Federal German Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), the CDM/JI Initiative. The purpose of the Working Group is to provide a stakeholder forum for dialogue, exchange of experiences and coordination of support of PoAs through the PoA financing activities of the Working Group members. The Working Group aims to identify a common perspective on how best to overcome technical and regulatory barriers impeding the effective implementation of PoAs. To date the group has 10 members from non-governmental and governmental institutions acting in their personal capacity.

Background:

The PoA Working Group appreciates the opportunity to provide input to Parties’ discourse on the review of the modalities and procedures for the CDM and to respond to issues raised in the UNFCCC technical paper outlining options for revising the CDM M&P (UNFCCC Reference: FCCC/TP/2014/1).

The PoA Working Group regards Programme of Activities as a valuable carbon market mechanism with unique design features for promoting greenhouse gas (GHG) mitigation actions that are dispersed over space and time. Building on the experiences of stand-alone CDM project experience, the PoA framework has demonstrated great potential for achieving emission reductions in countries and sectors under-represented in the conventional CDM pipeline. Furthermore the PoA framework

can be used to support scaled-up emission reductions that could help foster sector-wide approaches to GHG mitigation. In conjunction with Standardized Baselines, PoAs may be able to facilitate and/or accelerate the implementation of critical GHG mitigation policies in developing and in advanced developed countries which are - amongst other - needed in order to leapfrog emissions-intensive developments and thus to reach the two-degree target.

However, PoAs still face barriers in their implementation. They are subject to specific risks resulting from as yet still unsolved regulatory shortcomings, including their insufficient definition, bottlenecks with regard to practical implementation, as well as problems related to the exploitation of micro-scale emission reduction potentials. Thus, PoAs have not been able to achieve their full potential in terms of reducing transaction costs, addressing dispersed emission sources and promoting regional distribution of the CDM. Further improvement and simplification of the PoA rules are needed.

The intention of this submission is to put forward concrete proposals in order to tap the full potential of the CDM.

Proposed changes to the modalities and procedures:

The PoA Working Group welcomes the progress made towards the revision of the modalities and procedures, in particular the CDM Policy Dialogue and the workshop on review in June 2013 in Bonn and the paper prepared by the UNFCCC Secretariat that outlines multiple options for revising the modalities.

We recommend that the UNFCCC Secretariat prepares a revised version of the CDM M&P in time for CoP 14 in Lima in December 2014.

We recommend that the revision accommodates the following proposed revisions:

i) Separate sections: In accordance with para 63 of the technical paper we support the proposal to include a separate section for Programme of Activities in the modalities and procedures in order to take into account the special nature of programmes using this design feature. We recommend that the section clarifies the key principles, definitions and rules that are different to stand-alone CDM project activities. Given the dynamic and diverse nature of PoAs, project participants need flexibility in structuring their PoAs. The revised M&P should avoid unnecessary prescriptiveness and instead focus on guiding principles and key elements, tasking the CDM EB to develop detailed rules.

ii) Streamlining the project cycle: We recommend that the revision of the modalities and procedures takes a fresh look at the PoA cycle, and develops a description of the PoA cycle that is not unnecessarily prescriptive and that allows for the option of a simplified validation and registration process for activities that satisfy the following two criteria (1) they satisfy micro-scale thresholds or apply standardized baselines; and (2) they are also considered automatically additional. Contrary to para 135 of the technical paper we think this should not be mandatory, given that this approach may not be suitable for all PoA types or actors. This paragraph would allow for:

- Validation of PoAs without specific Component Project Activity Design Document (CPA-DD) for Component Project Activities (CPAs) involving certain types of activities with individual unit size that satisfies the micro-scale activities thresholds;

- Inclusion on the basis of a pre-approved standardized inclusion template component project activities (CPAs) involving certain types of activities with individual unit size that satisfies the micro-scale activities thresholds directly by Coordinating and Managing Entity (CME) without prior validation by a DOE, provided that the global and local stakeholder consultations are appropriately carried out at the PoA level, fulfilment of host country sustainable development criteria is appropriately demonstrated and environmental integrity is appropriately ensured. Furthermore, CERs shall only be issued for such a CPA subject to a confirmation by a DOE, in connection with verification, of its appropriate inclusion.

iii) Additionality: Moreover modalities and procedures should encourage the use of objective and standardized approaches to additionality demonstration including approaches such as positive lists, market penetration rates, and technology specific benchmarks. This refers to para 83 of the technical paper.

iv) Stakeholder consultation: With regard to local stakeholder consultation, we recommend that for micro-scale PoA the process could be carried out at the time of registration of the PoA for all CPAs. Stakeholder consultation at the time of inclusion of CPA would hinder the project implementation and increase the transaction costs tremendously. In case of multi-country PoA the country-specific LoA-process should ensure local stakeholder consultation.

v) Start and length of the crediting period: The start date of the crediting period for CPAs should be the date of their implementation (as long as it is after the start of validation of a PoA) but not necessarily the date of CPA inclusion. This is especially important for sub-units/appliances with short technical lifetimes. Crediting period length needs to strike a balance between certainty regarding investment periods (incentivising mitigation) and conservativeness regarding crediting (safeguarding environmental integrity).

Therefore we recommend that the crediting period should either be 10 years or with renewable crediting period of 7 years. In order to strengthen the environmental integrity of the CDM we recommend that the secretariat undertakes further work regarding the crediting period renewal of CPAs and its impact on the environment. Such an analysis should be done specific to technology and scale. The outcome of the analysis should preferably be presented in time before CoP 14 in Lima.

vii) Liability of DOEs: The revised CDM M&P should not try to define a concrete rule, since further technical analysis is recommended to be undertaken in exploring the different options to define the optimal solution to address liability. Instead of defining a rule it is recommended that language in the revised CDM M&P should be drafted in a way that ensures; environmental integrity is preserved, that no additional costs are passed on to project developers, and that the level of liability is reduced to a level which allows DOEs to perform. This refers to para. 49 of the technical paper.

viii) Small scale and Micro-scale PoA thresholds: We support the proposed change in para 143 of the technical paper: The modalities and procedure should take into account the different nature of the project design of a PoA . Currently small scale and micro scale thresholds are arbitrarily applied to define CPAs, increasing transaction costs without any benefits to environmental integrity. It is recommended therefore that the threshold limits are applied to the individual units within a CPA rather than to define the aggregated size of the CPA (in accordance with para 137 of the technical paper).

ix) Flexible verification schedules: We support the proposal in para. 66 (e) of the technical paper of the secretariat allowing CPAs to have different monitoring and verification schedules, with timings to be chosen by the coordinating/managing entity. Allowing multiple issuances for a CDM Programme Activity (CPA) within a monitoring period would align the monitoring and verification to the practical implementation realities of individual CPAs, which often have different monitoring and verification schedules. Flexibility that allows the CME to decide when to submit a single or bundle of CPAs for issuance would greatly advance the effective functioning of PoAs without reducing their environmental integrity. Failure to recognize this in the current regulatory framework governing PoAs is impeding investment and the ability for PoAs to fulfil their potential to mitigate GHG reductions.

x) Multi- Country PoAs: We recommend that the modalities and procedures develop separate guidance for multi-country PoAs that i.e. allow PoAs to proceed once at least one letter of approval (LoA) has been received. The inclusion of activities in countries that submit LoAs later should be allowed at the point in time the host country has submitted their LoA.

xi) Monitoring and Calibration requirements: The modalities and procedure should stipulate that for all non-material changes in a monitoring plan at the time of verification xx can be approved by a DOE. Additionally, the modalities and procedures could include a principle that the calibration requirements should reflect the project technology and circumstances.

Should further information be required, please do not hesitate to contact us.

On behalf of the PoA Working Group