



SUBMISSION BY IRELAND AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

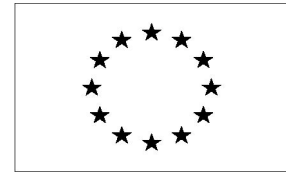
This submission is supported by Albania, Croatia, Bosnia and Herzegovina, Iceland, the Former Yugoslav Republic of Macedonia and Serbia.

Dublin, 19 March 2013

Subject: Guidance relating to the clean development mechanism

Introduction

1. Pursuant to decision 3/CMP.1, the first review of the modalities and procedures for the clean development mechanism, as contained in the annex to decision 3/CMP.1, shall be carried out by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its ninth session.
2. In the EU's view, the first review of the modalities and procedures of the CDM should aim at taking a broad grip on the modalities and procedures; address shortcomings and build on existing strengths to ensure that CDM can be a useful tool for international climate change cooperation and operate effectively alongside other mechanisms and instruments in the future.
3. The EU appreciates the work of the High-level panel of the CDM Policy Dialogue during 2012 and welcomes the resulting reports.
4. The EU welcomes the opportunity to submit views on the modalities and procedures for the clean development mechanism in this submission and looks forward to engaging in further discussions, together with other Parties, during the year on this matter.
5. It is important to recognize that there is a significant "gap" in mitigation objectives. Consequently, the international carbon market is negatively impacted by problems related to the imbalance between demand and supply. Unless this gap can be bridged by additional and more ambitious pledges and commitments and further reforms are agreed to address issues with supply, the current market fundamentals are likely to prevail at least to 2020.
6. Carbon markets play a central role in the EU's vision towards the achievement of the below 2°C objective and for financing emission reductions. To facilitate cost-effective mitigation and scaled-up global mitigation efforts in line with the below 2°C objective, the EU believes that low-carbon policy designs for broad segments of the economy and net mitigation benefits, beyond offsetting, is required. The review of the CDM modalities and procedures can help by creating a bridge between project-based offsetting and new market mechanisms.



Proposed changes to the modalities and procedures

General

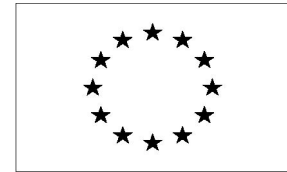
7. The Modalities and Procedures for the Clean Development Mechanism were adopted as part of the Marrakesh accords and cover several decisions, annexes and appendices. Those have subsequently been complemented by CMP decisions, annual guidance by the Parties to the CDM Executive Board and interpretation by the Board in its rulings and guidance. Many of the rulings and guidance by the Board are based on certain praxis on how these rules could be interpreted. It is important that this should not in any way preempt what comes out of the review.
8. The predictability for all participants in the CDM can be further increased by clear rules and their transparent application. The adoptions of the validation and verification standard, the project standard and the project cycle standard have contributed significantly to this increased clarity. One additional step that could be taken is to consolidate all the decisions, annexes and appendices for the CDM modalities and procedures into one document.

Governance

9. The role of the CDM Executive Board should be supervisory in nature and dedicated to strategic issues while operational tasks should be handled by the Secretariat in close collaboration with panels and working groups. The relationship between the Executive Board, its panels and working groups and the Secretariat should be defined clearly by written terms of reference and standard operating procedures. The Board should make best use of the technical expertise at hand in the panels, working groups and Secretariat.
10. Members of the CDM Executive Board need to have the appropriate skills, qualifications and competencies to fulfil their duties and should be selected in a transparent process with the qualifications of the candidates made public. Practical experience has shown that there is little reason to distinguish between full and alternate members. It can even complicate decision making as 3 members can now block any decision. The EU therefore proposes that all members should be full members (no alternates) and that residence time in the Executive Board should be limited to 3 terms of 2 years, or a total of 6 years, for any person.

Sustainable development

11. Recalling that the UNFCCC and its Kyoto Protocol are part of the UN system, the implementation of project activities under the CDM shall respect international human rights (e.g. the Universal Declaration of Human Rights etc.).
12. The CDM Executive Board should improve the rules and procedures related to stakeholder consultation, and establish guidelines for local and global consultation procedures including minimum criteria for scope, timing and form.



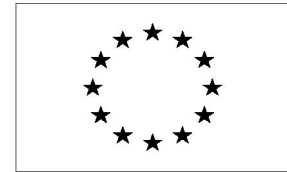
13. It should be mandatory to report the sustainable development aspects of CDM projects. Designated National Authorities (DNAs) are to make public the sustainable development criteria they use in their Letter of Approval process. The CDM Executive Board shall develop a tool for assessment of the contribution to sustainable development (assessing positive as well as negative impacts) that sets comparable standards, in order to assist DNAs. This does not preclude host countries deciding on their actual criteria.
14. A Letter of Approval shall contain start date and end dates for validity, as applicable and clear conditions for withdrawal, if any.

Project cycle

15. The concept of materiality shall be applied in all steps of the CDM, and materiality thresholds should be applied during validation as well as verification.
16. Verification refers to all aspects of the Project Design Document, as per paragraph 62 of the current modalities and procedures. This should be complemented by a formal right for stakeholders to comment on the published verification report before the submission to the CDM Executive Board.

Baselines and Additionality

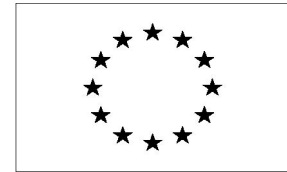
17. The CDM modalities and procedures should facilitate the application of standardised ambitious baselines (e.g. based on benchmarks) that generate positive lists of projects. Using such options should be encouraged in the modalities and procedures for project types and contexts where there is a low risk of non-additionality.
18. The CDM modalities and procedures should enable going beyond offsetting so that the CDM can contribute to a net emission reduction and/or avoidance of greenhouse gas emissions.
19. The baselines of CDM projects using standardized baselines should be updated regularly, e.g. every three years, according to transparent and objective criteria established ex ante. Any such approaches should be predictably defined ex ante and not be applied retroactively.
20. Once sector-specific standardized baselines have been established, their use should be mandatory for new projects unless existing project-specific baselines are more ambitious, in which case project-specific approaches can continue to be applied.
21. If sector-specific standardized baselines are used, the concept of prior consideration could be modified, e.g. by providing that these standardized baselines should only be applicable to activities with a start date after the approval or update of the respective baseline.



22. The use of standardized approaches and parameters for additionality assessment should be increased and the use of “positive lists” extended. The criteria for the assessment of positive lists should ensure the high probability that project types are additional. The Executive Board should encourage the use of positive lists combined with conservative default values to simplify additionality assessments for project types and contexts where there is a low risk of non-additionality. Proposals for extension of the scope of positive lists or standardised baselines should be accompanied by a thorough impact assessment.
23. Where standardised approaches are more difficult to apply (e.g. transport sector or more generally heterogeneous technologies) the existing additionality tools can continue to be used, but these should be further strengthened. For example; when conducting an investment analysis, project proponents should use the same financial data they have used or will use for other purposes, inter alia to acquire a bank loan or to calculate the social benefits of a public sector project. Also, all costs and revenues should be considered, including revenues expected from Certified Emission Reductions, and should be included in the financial additionality assessment. A sensitivity analysis of the CER revenues in relation to other financial parameters for the project should be conducted.
24. When using common practice assessment, CDM projects of similar size and type, registered 5 years before or earlier, should be included in the assessment.
25. In the additionality tools, the first-of-its-kind step should be removed.
26. The e+/e- rule is in contradiction with appendix C, §b (vii) of the CDM modalities and procedures and should be abolished. Instead, all applicable national policies and specific national circumstances should be taken into account when establishing baselines. It is also important that no double counting of emission reductions occur, inter alia from CDM and other mechanisms or pledges.
27. The length of the crediting period should be determined in the respective methodology and may in general be either 7 or 10 years. Any deviations from these general rules (longer or shorter periods) should be defined in the methodology.
28. According to paragraph 44 of the modalities and procedures the baseline is the scenario that reasonably represents the anthropocentric emissions by sources of greenhouse gases that would occur in the absence of the proposed project. It is important that at the renewal of a crediting period an assessment is made that the original baseline scenario is still valid, taking into account new data where applicable.

Programme of Activities (PoA)

29. Acknowledging that there is a difference between project-by-project CDM and Programme of Activities (PoA), a separate section for PoA and separate methodologies should be developed. Those methodologies should take account of cross-sectoral leakage



effects and avoid any potential double-counting of emission reductions. For sectors that are not yet sufficiently covered under the CDM (e.g. building, efficiency, transport), the top-down development of such PoA methodologies should be enabled.

30. The feasibility of PoAs can be enhanced, inter alia by allowing the possibility for different CPAs, or groups of CPAs under one PoA, to have different monitoring periods and undergo verification at different times.
31. The modalities and procedures should facilitate approaches that lead to sector-specific standardised baselines with net mitigation effects. Such methodologies could limit the share of emission reductions that can be converted into CERs and would have to include monitoring provisions which avoid negative free-riding effects. Such supply side reforms would allow scaling up the CDM's contribution to climate change mitigation, while also favourably affecting the current supply-demand imbalance.