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Subsidiary Body for Implementation

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Item 7(a) of the provisional agenda

Matters relating to the mechanisms under the Kyoto Protocol

Review of the modalities and procedures of the clean development mechanism

Views on possible changes to the modalities and procedures of the clean development mechanism

Submissions from Parties and admitted observer organizations

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its eighth session, invited Parties and admitted observer organizations to submit to the secretariat, by 25 March 2013, their views on possible changes to the modalities and procedures for the clean development mechanism.¹
2. The secretariat has received 14 such submissions. In accordance with the procedure for miscellaneous documents, the six submissions from Parties² and the one submission from an intergovernmental organization³ are attached and reproduced* in the languages in which they were received and without formal editing. In line with established practice, the seven submissions from non-governmental organizations have been posted on the UNFCCC website.⁴

¹ Decision 5/CMP.8, paragraph 10.

² Also available at <http://unfccc.int/documentation/submissions_from_parties/items/5902.php>.

³ Also available at <http://unfccc.int/parties_observers/igo/submissions/items/3714.php>.

* These submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

⁴ Available at <http://unfccc.int/parties_observers/ngo/submissions/items/3689.php>.

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

Paper no. 1: Chad on behalf of Burundi, Cameroon, Central African Republic, Chad, Congo, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Rwanda, and Sao Tome and Principe

Soumission des vues des pays du Bassin du Congo (Burundi, Cameroun, Congo, Gabon, Guinée Equatoriale, République Centrafricaine, République Démocratique du Congo, Rwanda, Sao Tomé et Principe et Tchad)

Concernant les orientations relatives au Mécanisme pour un Développement Propre (FCCC/KP/CMP/2012/L.10, Point 12).

Les pays membres de la COMIFAC souhaitent que les procédures des MDP soient plus flexibles, et que la répartition géographique des projets soit équitable.

**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 pre-empt 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.

Guidance relating to the clean development mechanism

New Zealand submission to the Subsidiary Body for Implementation:

Views from Parties and admitted observer organizations on possible changes to the modalities and procedures for the clean development mechanism.

March 2013

Introduction

1. In making this submission New Zealand is responding to the invitation to Parties to provide views on possible changes to the modalities and procedures for the clean development mechanism (FCCC/KP/CMP/2012/L.10, paragraph 12 refers).

2. It will be important to consider the broader context for carbon markets when discussing changes to the modalities and procedures for the clean development mechanism. This context includes a number of emerging domestic and regional markets and decisions to elaborate a framework for various approaches and a new market mechanism alongside a new global agreement. These factors have the potential to significantly broaden the number of Parties participating in market mechanisms. New Zealand remains of the view that broad, efficient market mechanisms will continue to be an integral part of effectively combating climate change.

Context

3. Decision 1/CMP.8 which sets out the amendment to the Kyoto Protocol pursuant to its Article 3, paragraph 9 (the Doha Amendment) has implications for how the clean development mechanism is used during the second commitment period of the Kyoto Protocol. Paragraph 13 of that decision clarifies that for the purposes of the second commitment period, from 1 January 2013 onwards, a Party included in Annex I that is also a Party to the Kyoto Protocol may continue to participate in ongoing project activities under Article 12 and in any project activities to be registered after 31 December 2012.

4. The modalities and procedures for the clean development mechanism, set out in Decision 3/CMP.1, outline the rules for participating in the clean development mechanism for the first commitment period. The Doha Amendment has created a distinction between Annex I Parties with a quantified emission limitation and reduction commitment (QELRC) inscribed in the third column of the amended Annex B and Annex I Parties that are a Party to the Kyoto Protocol but do not have a QELRC inscribed in the third column of the amended Annex B.

5. In considering possible changes to the modalities and procedures for the clean development mechanism it will be important to ensure that the modalities and procedures reflect the intent of the Doha Amendment to allow Annex I Parties without a QELRC inscribed in the third column of Annex B to participate in the clean development mechanism.

6. New Zealand looks forward to engaging with other Parties on possible changes to the modalities and procedures for the clean development mechanism.

April 2013

Submission from Norway on possible changes to the modalities and procedures of the Clean Development Mechanism

Norway welcomes the opportunity to submit views on possible changes to the modalities and procedures of the Clean Development Mechanism pursuant to para 10 of Decision 5/CMP. 8. Norway notes the proposals for changes made by the CDM Policy Dialogue, stakeholders, the secretariat and the Executive Board, which together provides a rich source of input relevant to the review of the modalities and procedures.

Norway notes with deep concern the current market situation, that we see as a consequence of lack of demand reflecting i.a. too low ambition in the climate regime.

Norway participates in the CDM both through a significant state procurement program operated by the Ministry of Finance and allowing private entities to use CERs in the European Emissions Trading Scheme (EU ETS). Further, many Norwegian entities are involved in the CDM process as project developers, consultants and DOEs. Norway is a firm believer in market based mechanisms such as the CDM. These give possibilities for countries to take more ambitious targets in combination with promoting sustainable development in host countries, as well as providing innovative sources of finance. Given the need for higher ambition, the role of flexible mechanisms, including the CDM, should be enhanced.

While recognizing that the CDM is a mechanism established under the Kyoto Protocol, Norway believes that CERs from CDM should be available to use against commitments for all Parties in a future climate regime, given necessary provisions to ensure environmental integrity of the regime. In this regime, we expect the CDM to coexist with the New Market Mechanism defined in CP. 17 in Durban. We also expect that emissions trading, joint implementation and possibly other mechanisms will be useful in the future. Interaction between the existing mechanisms under the Kyoto Protocol and new market based mechanisms point to the need for sound systems for unit accounting for all flexible mechanisms as well as measurement, reporting and verification of credits as well as provisions to avoid double counting.

It is vital to continue to build confidence in the CDM so that it can be scaled up and contribute to meeting a demand that is more in line with the mitigation actions needed to reach the 2 degrees target. Any changes in the modalities and procedures should serve the purpose of making the CDM more attractive to buyers of CERs, as well as more scalable.

Norway would welcome enhancement of sustainable development aspects of the CDM project activities, keeping in mind that the main motivation for CDM projects is emission reductions.

Stakeholder consultation processes, as well as the validation of these, should be further improved. This will help to make sure that all relevant aspects of the projects are transparently addressed.

Roles and responsibilities of host countries need to be further elaborated, as well as the conditions on which host countries give letters of approval.

The current rules for crediting periods should be reexamined as part of the review. This reexamination should take into account the rapid development in technologies in some sectors, as well types of equipment having shorter lifetime than 7 years, while other project types may have a longer time horizon than 21 years.

The thresholds pursuant to size of projects (small- and microscale) should be examined to see whether they allow for equal treatment regarding similar projects where individual units are small (ia. lighting and clean water devices), but where some of the projects may still be considered large scale under the current modalities and procedures.

Some project types should be pursued through other means than CDM in the future. In particular this is true for project types that creates perverse incentives, such as the industrial emissions of HFCs from production of HCFCs, and some industrial emissions of N₂O. Norway recognize that the current projects have played an important role in the CDM market in its first decade, but these relatively inexpensive mitigation options should rather be pursued through arrangements to fund the mitigation measures (incinerators and catalysts) such as those under the Montreal Protocol Fund. Moving these projects out of the scope of the CDM would also contribute to a better balance between demand and supply as well as enable funding for mitigation of emissions from new production lines. This view is also in line with the recommendations of the High Level Panel on the CDM Policy Dialogue.

The CDM should not register and issue CERs to major new power plants based on coal without carbon capture and storage(CCS).

Modalities and procedures for the afforestation and reforestation project activities should, if it is possible without compromising environmental integrity, be revised to allow for issuance of permanent CERs. The current rules on temporary units (tCERs and ICERs) have resulted in low prices, very few forestry projects registered and only a handful of issuances. Norway does not currently see that activities under REDD+ fit within the CDM due to issues related to ia. scope, leakage and permanence.

Revision of the modalities and procedures for the Clean Development Mechanism

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Switzerland welcomes the progress made towards the revision of the modalities and procedures for the Clean Development Mechanism (CDM), in particular with the CDM Policy Dialogue, and welcomes the opportunity to provide further input with a view to adopt revised modalities and procedures at CMP 9.

The first review of the modalities and procedures for the CDM pursuant to decision 3/CMP.1 needs to draw upon the experience and lessons learnt so far with the CDM, Joint Implementation (JI) and national climate policies. Switzerland is of the view that CDM should continue being an important mechanism for global mitigation action and supports the revision of the modalities and procedures in view of:

- ensuring the environmental integrity of the CDM, in particular real emission reductions and its contribution to sustainable development,
- improving its governance
- improving its usability and reducing transaction costs and risks,
- fostering synergies with other market mechanisms,
- and integrating recent developments of the climate regime.

Switzerland is of the view that the review of the CDM should include both operational revisions - guided by the principle of simplification - and strategic revisions. In addition, an incremental approach to the revision of the modalities and procedures is needed, so that the CDM evolves with the strategic developments of the broader context, in particular with the elaboration of the post-2020 agreement. In addition, consistency between the flexible mechanisms and between market mechanisms under the Kyoto Protocol and the Convention should continuously be increased. All these market mechanisms will benefit both from increased coherence of rules and structures across mechanisms and from efforts to streamline and simplify rules and procedures, and to increase predictability for the private sector.

Switzerland commends the High-Level Panel on the CDM Policy Dialogue for its work and recommendations regarding the revision of the CDM. The following submission outlines Switzerland's views on the following recommendations of the Report on the CDM Policy Dialogue: 1) Demand/supply and access to the CDM; 2) Synergies with other mechanisms; 3) Standards and environmental integrity; 4) Governance.

1) Demand/supply and access to the CDM

The CDM was built in a specific historical context of legally-binding mitigation targets by developed countries under the Kyoto Protocol. This historical situation is a stepping stone toward broader mitigation action, both in the pre- and post-2020 regime. In the context of the new climate regime and efforts to increase mitigation action under the Convention, the CDM need now to evolve and reflect the ever more pressing situation where nationally adequate mitigation actions are required by all countries, both developed and developing, either under the Kyoto Protocol or under the Convention. Against that background, the CDM modalities and procedures should set a regulatory environment and system that enables the CDM to be fit for the future, to facilitate the promotion of global mitigation action under the Convention, and to increase demand for CERs.

The issue of imbalance between demand and supply of certificates needs to be further addressed in the context of mitigation actions by all countries under the Convention. In this broad context, Switzerland advocates full use of the potential of the CDM by all Parties and therefore **full access to the CDM to all Parties, including to developed countries without emission reductions inscribed in Annex B for the second commitment period of the Kyoto Protocol**. Since the CDM is regulated by a set of common rules, modalities and procedures, there is broad confidence in the contribution of the mechanism to global mitigation action, although the environmental integrity of the CDM can still be further reinforced. Therefore, broad use of CERs for achieving mitigation targets should be allowed. In the context of the new climate regime where all developed and developing countries contribute to emission reductions, in particular as of 2020, all Parties should be able to fully participate in the CDM, acquire and transfer CERs. This will increase demand for CERs and contribute to mitigate the imbalance between demand and supply for certificates. Adequate accounting rules and an extension of the procedures for surrendering/cancelling CERs used for meeting commitments and for avoiding double counting are needed for Parties without commitments in the second commitment period.

In order to further increase demand for CERs, Switzerland also supports **full access to the CDM to all Parties, including to developing countries** for meeting their nationally appropriate mitigation actions (NAMAs) pledged under the Convention, if they wish to do so. For example, a country may wish to allow its national companies participating in an Emissions Trading Scheme (ETS) to use CERs resulting from projects realised on its national territory and/or in other countries for meeting their national commitments. Developing countries would therefore benefit from the rules and infrastructure of the CDM that are already available (e.g. standards, tools, International Transaction Log) in order to promote the implementation of their national climate policies and actions. Adequate accounting rules and an extension of the procedures for surrendering/cancelling CERs used for meeting commitments and for avoiding double counting are needed.

In addition, **use of CERs for further mitigation actions in sectors currently poorly addressed by the CDM and other instruments** should be facilitated. For example, given the recent developments under the International Civil Aviation Organization (ICAO) and the International Maritime Organization (IMO) for introducing market-based instruments for mitigation purposes (e.g. offsetting, national/regional/global efforts), encouraging the use of CERs for complementary purposes to commitments under the Kyoto Protocol or the UNFCCC is needed. This will increase demand for CERs and allow developing countries to further benefit from the promotion of sustainable development, technology transfer and capacity-building. To allow a smooth implementation of complementary actions and synergies, the extension of the necessary arrangements and procedures for surrendering/cancelling CERs used for meeting commitments and for avoiding double counting is needed.

Switzerland recognizes that an **increase in mitigation action by all Parties under the Convention, in the context of the corresponding process under the Durban Platform (ADP)**, is a key element to close the mitigation gap and to increase demand for certificates, in parallel to increased domestic mitigation action. In addition, increased mitigation actions are needed from development banks, for which emission reductions should be a guiding principle for action. Furthermore, the private sector should be increasingly involved in mitigation actions, not only through adequate national and international policies, but also through enhanced voluntary actions.

At the same time, **reducing supply from some CDM project types which are not additional and environmentally integer** should be adequately addressed (see section 3 below) and adequate alternatives for these projects should be put in place.

2) Synergies with other mechanisms

The CDM is a success in its capacity to attract private resources in emission reduction activities and to contribute to sustainable development, technology transfer and capacity-building. The CDM has allowed the development of **strong expertise** by many stakeholders (project developers, Designated Operational Entities, Designated National Authorities, the CDM Executive Board) and a **large corpus of methodologies, tools and structures**. These competences and lessons learnt regarding needed improvements have to be taken on board when revising the modalities and procedures of the CDM, but also when revising the JI guidelines and designing the framework for various approaches and the modalities and procedures for the new market mechanism under the Convention.

Many **synergies between market mechanisms** established under the Kyoto Protocol or the Convention can be identified, including: **using the infrastructure, expertise and tools** of the CDM for JI, for the framework for various approaches and for the new market mechanism under the Convention (whose standards and processes are currently being designed), such as: methodologies and standards, the regulatory bodies, the international transaction log, accreditation procedures, the future appeal process and the reporting and reviewing processes. This will increase environmental integrity, resource-efficiency and consistency across mechanisms, and thus comparability among activities and fungibility of carbon markets. Furthermore, increased interactions and synergies between mechanisms are needed to **avoid double counting of emission reductions across market mechanisms**. For example, avoiding double counting of emission reductions achieved by an installation that is registered as a CDM project and at the same time that participates in a new market mechanism would require specific arrangements, such as retiring CERs for these emission reductions that are also rewarded with units under the new market mechanism. In addition, market mechanisms are an instrument that can contribute to the implementation of NAMAs by developing countries and experiences with the CDM can be useful for further elaborating climate financing instruments such as the Green Climate Fund (GCF).

Given the evolution of the climate regime and the urgent need for global mitigation action, both the flexible mechanisms and other new market mechanisms under the Convention need to reflect that market mechanisms have to go beyond pure offsetting, so that **net emission reductions** are achieved on a global scale. This will ensure that only a part of the emission reduction is accounted toward the emission reduction objective of the developed country (buyer country) and that the other part is accounted toward the emission reduction objective or NAMA of the developing country (host country), while at the same time avoiding double counting. Striving for an approach that

allows for the principle of net emission reductions not only to the framework for various approaches and the new market mechanism under the Convention but also to the CDM will allow consistency across market mechanisms and a smooth enhancement of mitigation actions by all Parties and participants. Switzerland recommends further analytical work on instruments and methodologies to facilitate the implementation of net emission reductions and avoidance of double counting.

Further developments of the CDM towards **sectoral approaches** and implementation of NAMAs should be encouraged, building upon the experience with CDM Programmes of Activities (PoAs). Sectoral approaches can address both challenges of leakage and scaling up of mitigation actions. In this regard, synergies and convergence of the CDM with the new market mechanism under the Convention would strongly benefit all mechanisms and reinforce environmental integrity.

The recommendation of the CDM Policy Dialogue for using an existing fund or encouraging countries in their efforts to scale up climate finance to purchase and cancel certificates to be accounted by these Parties as contributions to international climate finance, and the proposal to create stabilization funds functioning as reserve banks, Switzerland recommends **further analytical work** on: the impacts on market liquidity and stability, the financial resources that would be needed and the consequences on the optimisation of climate benefits and co-benefits with climate finance. Such work could be done by the UNFCCC, by other fora such as the OECD and by the financial services industry. For the time being, Switzerland is not in a position to assess such recommendations given the lack of in-depth analysis.

3) Standards and environmental integrity

Switzerland is of the view that both host and investor countries must have the possibility to **withdraw or suspend their Letters of Approval (LoAs)** when projects violate national regulations or international treaties, in particular human rights. Indeed, such implications may appear only after the registration of a project or during its implementation. However, such withdrawal and suspension of LoAs need to have robust safeguards to ensure that there is certainty for investment by the private sector. Violations need to be clearly demonstrated and a clear and transparent process is needed, in particular regarding the conditions for a Designated National Authority (DNA) to withdraw or suspend a LoA, the process for mitigating the negative situation within a specific deadline and the related consequences in case of absence of resolution of the situation. DNAs should transparently inform on the conditions for withdrawing or suspending LoAs, e.g. in the LoAs they issue or in their national procedures for issuing LoAs. This will support the credibility and environmental integrity of the CDM and encourage project developers to better take care of sustainable development and interests of local communities when implementing a project.

The assessment of **additionality** needs to be improved and streamlined, by relying increasingly on standardized approaches such as performance benchmarks. A conservative approach is needed when setting reference levels in order to take into account uncertainties. Evolving conditions (e.g. context related to a country, use of technologies) need to be reflected in the baselines, which must be regularly reviewed and updated.

In general, methodologies need to be **simplified**. Using simple and conservative approaches will increasingly ensure environmental integrity, transparency, objectivity and usability. It is necessary to increase use of performance benchmarks, clear and transparent indicators for additionality and

baselines, and positive lists. Simplified requirements for monitoring should be applied to both new and already registered projects, without further validation.

The **length of the crediting periods** should be revisited. The length of the crediting periods should be limited to a maximum number of 10 years. Indeed, **technology diffusion** over time must be better taken into account, since some investments would have been done anyway after a few years, in particular for large scale power supply projects. For large projects, the crediting period should be limited to 10 years, while for small projects the crediting period should 7 years with a single possibility to renew the crediting period for an additional period of 7 years.

Furthermore, some developing countries might want to phase out existing CDM projects or allow the participation of new CDM projects only for a specific period of time, so that these projects can be **integrated in a national climate instrument such as an ETS or in a new market mechanism with a broader scope than the CDM**. This would be an option for avoid double counting of emission reductions through two different mechanisms. Therefore, modalities should allow host countries to choose to reward these CDM projects through a domestic instrument or another international instrument, instead of through the CDM. In such a situation, the ex-CDM installation would still be rewarded for its emission reduction by benefiting from a comparatively better situation in an ETS in comparison to other installations (and therefore it would be able to sell its surplus of emissions allowances to other participants of the scheme) or by receiving units issued for its participation in a new market mechanism.

In addition, the **environmental integrity and mitigation impact of some project types** need to be reassessed. Project types for which perverse incentives or leakage endanger the environmental integrity of the CDM, as it is the case with HFC-23 projects and projects that reduce N₂O from adipic acid plants, need to be addressed as soon as possible with alternative instruments to market-based instruments. Alternatives based on non-market approaches would consist in financing measures for phasing down HFCs in a cost-effective way in order to maximize both protection of the ozone layer and climate change mitigation, by creating synergies between the Montreal Protocol and the UNFCCC. HFC-23 projects and N₂O from adipic acid plants CDM projects should be excluded from the CDM with immediate effect. In addition, it is necessary to include a general provision for these projects that ensures continuation of emission abatement of HFC-23 and N₂O adipic acid CDM projects and monitoring beyond the end of the crediting period. Another example is coal-fired plants, which should not be able to be rewarded by CERs since these projects imply a net increase of emissions, do not contribute to sustainable development and lead to a technological lock-in. Adequately addressing the concern of HFC-23, N₂O adipic acid and coal-fired plants in the CDM would contribute to improve the issue of imbalance between demand and supply of CERs.

The Executive Board should address **significant deficiencies in validation, verification and certification reports** and make recommendations for adoption at CMP 9. These new recommendations should ensure a quantifiable limited risk and liability for Designated Operational Entities (DOEs). Alternative options should be considered by the EB, such as levying a share of proceeds to offset significant deficiencies and therefore guarantee mitigation effects.

The CDM should increasingly contribute to sustainable development of host Parties, and especially local communities. **Sustainable development impacts** and co-benefits of the projects against various criteria need to be described more extensively. Use of the CDM sustainable development declaration tool should be made mandatorily to better inform stakeholders on these elements. The development of projects with high co-benefits should be promoted, in particular with simplified

requirements, especially regarding additionality and monitoring issues, whenever it does not endanger environmental integrity and conservativeness. Public consultations and stakeholder interaction should be improved in order to best take into account the interests of local communities, so that confidence in the CDM and its positive impacts can be reinforced.

4) Governance

Governance of the CDM Executive Board (EB) needs to be revised so that the EB becomes less politicized and more objective in terms of environmental integrity. EB members should act as independently as possible and without conflicts of interests. As such, they should not have any negotiating mandate under the UNFCCC and should not take instructions from Parties. Political issues should be deferred by the EB to the CMP, if they cannot be resolved within the EB. In addition to representation of developed and developing country Parties, representatives of the private sector and of accredited NGOs, both from developed and developing countries, should be represented in the EB, in order to enhance cooperation with the private sector and civil society. In order to keep this body as efficient as possible, the current size of the EB (20 persons) should not be exceeded. Therefore, adding representatives of the private sector and from accredited NGOs should imply the replacement of current alternates by these new representatives. We suggest having half of the members of the EB representing the private sector and NGOs (10 persons).

The Chair and Vice-Chair of the EB, the Panels and Working Groups should be elected on a full-time basis, other members of the EB at least on a half-time basis to allow **professionalization and dedication** of the work of EB members. Terms limits on membership are needed, with terms both as member and alternate member to be taken into account. The process for selecting candidates should be transparent and well-structured with an adequate time plan. Nominations to the EB should include written documents highlighting qualifications and relevant background of the nominees. Several years of significant technical, regulatory, climate change and/or financial experience should be required for an application as an EB member. Drawing upon the experience of stakeholder involvement, interactions between the EB and stakeholders should be fostered. Switzerland supports a harmonization and unification of governing bodies for the CDM and JI, for reasons of efficiency and consistency.

Negotiations under the SBI on the **appeal process against decisions of the EB** need to be completed as soon as possible, in order to strengthen consistency and transparency of the decision-making process, and therefore confidence in the CDM. The independent appeal process should be based on principles of rules of law and due process, such as independence and impartiality, transparency, prevention of conflict of interests, timely decisions and fairness. The appeal process for the CDM should be the same as the appeal process for JI, in order to promote synergies between structures and efficient use of resources. All stakeholders that are directly affected by a project should be able to have access to the appeal procedure. However, appropriate safeguards and procedures need to be established so that the appeal process is not inefficiently overburdened and does not block implementation of CDM projects.

**Proposals from Republic of Uzbekistan
on the reforming and optimization of
existing procedures of Clean Development Mechanism**

- To request the Secretariat to work out and approve the efficient “Mechanism of regulation of costs of **CCB** and **EPB** in crisis situations on the basic existing carbon stock grounds regarding the existing current situation in the carbon markets”
- *It is proposed to FCCC Secretariat* to simplify and optimize the procedures of complex control of documents during registration of CDM projects (too many stages and long consideration)
- *It is proposed to FCCC Secretariat* to charge the expert team on CDM matters with development and approval at Executive Council the correct and transparent Criteria for PDD assessment including the issues of definition of significance or insignificance of the detected errors and possibility of submitting the following appeal;
- *It is proposed to make the following change to the procedure of assessment of complementarity on CDM projects:* to consider large-scale CDM projects on the renewable power (excluding the projects of big HPS) and power efficiency as additional automatically;
- *It is proposed to FCCC Secretariat* to optimize the procedure of consideration and approval of the country sector standardized lines (to shorten the time needed for consideration) at Executive Council

The World Bank submission on the review of the modalities and procedures for the Clean Development Mechanism (CDM)

Introduction

The World Bank Group appreciates the opportunity to contribute to Parties' important work on the review of the modalities and procedures for the CDM as requested by CMP8:

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at CMP8, (...) Reiterates that, 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; (...) Invites Parties and admitted observer organizations to submit to the secretariat, by 25 March 2013, their views on possible changes to the modalities and procedures for the clean development mechanism;

This submission draws from insights and lessons derived from more than one decade of the World Bank's carbon finance experience across many different types of projects, programs and sectors around the world. It suggests using the review and necessary up-dating of the modalities and procedures (M&P) of the CDM as an opportunity to reposition the mechanism, and provides specific recommendations in that regard. We hope that this submission will be constructive input to Parties' deliberations. The World Bank would be pleased to elaborate further and contribute to this important work as needed.

1. Why repositioning the CDM and up-dating its modalities and procedures?

The first commitment period of the Kyoto Protocol has shown that the CDM can deliver emission reductions in developing countries at scale. The second commitment period foresees continuation of the CDM, but will probably not be able to create demand for new CDM project activities unless ambition levels are increased. This should however not lead to keep the CDM in a pure maintenance, stand-by mode as it would undermine what was achieved in terms of building capacity, institutional structures, knowledge and awareness in developing countries. It would also miss opportunities to use the CDM infrastructure beyond its original purpose of supporting an offset mechanism. The CDM has the potential to contribute to the delivery of results-based climate finance to developing countries if it can adapt to a finance logic besides an offsetting logic.

Besides repositioning there is a need to update the 2007 CDM modalities and procedures defined for a mechanism that was understood would develop on the basis of "learning by doing". As a result of moving forward, the CDM of today no longer reflects the CDM described in the original M&P.

2. How to revise the CDM Modalities and Procedures?

The following reflects the recommendations the World Bank made in January 2013 in responding to a call of the CDM Executive Board on possible changes to the CDM M&P.

Scope

1. The revised M&P needs to reflect the expanded scope of the CDM as a scaled up mechanism via programmatic and standardization approaches.

Increasing regional distribution of the CDM

2. **Defining suppressed demand procedures.** There is a need to consistently incorporate the concept of suppressed demand into methodologies, tools and guidelines approved under the CDM, whilst taking into account the characteristics of the project types and sectors.
3. **Address the problem of data limitations** that is common in several developing countries. Provisions need to be made for the use of higher aggregate data in standardized baselines for a period of time until improvements to data quality are implemented by host countries.

Governance

4. **A procedure for appeals needs to be adopted.** The appeals process will enable project participants to appeal the decisions with reference to the registration of projects and programmes of activities, issuance of CERs, and operational aspects of the CDM.
5. **Composition and professionalism of EB members.** EB members should have the appropriate professional qualifications to enable them to effectively perform their role as part of the Executive Board, and their election process should be transparent.
6. **Roles and responsibilities of the EB, Panels and DOEs .** The roles and responsibilities of the EB need to be clarified to enable the EB to function as the strategic and policy making body of the CDM. The EB should delegate the operational responsibilities of the CDM to a full time administrative body/panel. The role of DOEs and administrative body needs to be re-defined to remove duplication of efforts with the secretariat.
7. **Role of DNAs.** The Role of DNAs need to be reflected on the revised M&P to strengthen their capacity and to ensure oversight of the implementation of standardized baselines.
8. **Communication with stakeholders.** The possibility of a project participant to have direct communication with the EB/Secretariat/Panels should be included within the revised M&P.

Methodology and CDM project cycle

9. **The additionality concept must be revised.** Additionality has been controversial since the early days of the mechanism. Additionality assessments should become more objective. We therefore recommend that the revised M&P encourage the use of objective and standardized approaches to additionality demonstration such as positive lists, market penetration rates, technology specific benchmarks, etc.
10. **Guidance on materiality.** To improve the efficiency of validation and verification, the modalities and procedures need to provide guidance for the application of the concept of materiality.

11. Simplified project cycle track for small scale projects using standardized baselines and for micro scale programme of activities. Recognising that simplification of the project cycle lowers transaction costs, promotes efficiency and predictability, it is recommended to establish a simplified project cycle as an option for small-scale CDM project activities using standardized baselines and for programmes of activities targeting micro-scale activities („micro-scale PoAs“).

The CDM project cycle procedures for small scale projects should be simplified as follows:

- automatic registration of projects using standardized baselines and a standardized project design document (check list); and
- verification and certification of a registered CDM project activity combines (simultaneous) ex post assessment by the DOE of a project’s compliance with the requirements of the registered standardized project design document (check list) and of the monitored emission reductions.

The CDM procedures for micro-scale PoAs should be simplified as follows:

- micro-scale thresholds are applied at the level of each individual activity without the need for grouping them to CDM Programme Activities (CPAs) in order to simplify inclusion of individual units in a PoA;
- automatic inclusion of micro-scale activities;
- monitoring approaches are simplified and streamlined; and
- verification and certification of a registered PoAs combines (simultaneous) ex post assessment by the DOE of PoA’ micro-activities compliance with the eligibility requirements of the registered PoA and of the monitored emission reductions.

12. Project cycle timelines. The revised M&P needs to reflect the latest project cycle timelines approved by the EB. Furthermore we suggest that it encourages the continuation of efforts to streamline the registration and issuance process; e.g. continued use of a version of a methodology used in the registration of a project or programme of activity should be permitted in cases where the methodology expires during the period of completeness check and information and reporting check.

Afforestation/Reforestation (AR)

13. Flexibility in the timing of the verification. In accordance with the request from the CMP8, allow for flexibility in the timing of the verification of afforestation and reforestation projects during a crediting period and during commitment periods that are longer than 5 years.

14. Estimation of baseline stocks and removals. In accordance with the request from the CMP8, consider the use of more cost-effective approaches in A/R methodologies for the estimation of baseline stocks and removals, including the use of remote sensing for monitoring.

15. Definition of AR. The current definition of afforestation and reforestation under the CDM need to be revisited for the second and subsequent commitment periods. Definition of ‘Reforestation’ with a reference to 31 December 1989 was specific to the first commitment period. It is proposed to revise this definition for the second and subsequent commitment periods in relation to the starting date of the project activity.

16. Threshold for small scale CDM A/R projects. It is recommended that this threshold for small scale AR project activities is revised to make it consistent with the threshold in other sectors.

March 25, 2013