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Report of the Executive Board of the clean development mechanism

**Annual report (2003–2004) of the Executive Board
of the clean development mechanism to the Conference of the Parties***

Summary

This annual report of the Executive Board of the clean development mechanism (CDM) to the Conference of the Parties (COP), for consideration at its tenth session, covers activities undertaken from the end of November 2003 until early September 2004.

The report provides information on progress made towards the implementation of the CDM arising from action taken by the Board during its third year of operation. Such progress relates to advancements in the process leading to the registration of CDM project activities, notably regarding the accreditation and provisional designation of operational entities, the approval of new methodologies for baselines and monitoring, and the consolidation of such methodologies. The development of the CDM registry, required for the issuance of certified emission reductions (CERs), is another important topic covered in this report.

The report also addresses governance issues and measures taken to ensure the efficient, cost-effective and transparent functioning of the CDM, including steps taken to improve access to information on the CDM and its governance processes through the UNFCCC CDM web site. Information is also provided on resource requirements for administering the CDM. Apart from giving an account of substantive and governance matters agreed by the Board, the report contains recommendations for decisions to be taken by the COP at its tenth session.

The work of the CDM Executive Board from September to December 2004 will be covered in addenda to this document, as necessary. In addition, the Chair of the Board, Mr. John S. Kilani, will give an oral report to the COP at its tenth session, highlighting challenges and achievements during the third year of CDM operations.

* The late submission of the document is due to the need for extensive consultations.

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I. Introduction

A. Mandate

1. The Conference of the Parties (COP), at its seventh session, facilitated a prompt start for a clean development mechanism (CDM) by adopting decision 17/CP.7 and the annex thereto containing modalities and procedures for a CDM (hereinafter referred to as “the CDM modalities and procedures”) (FCCC/CP/2001/13/Add.2).

2. In accordance with paragraphs 2, 4 and 19 of decision 17/CP.7, and with the provisions of paragraphs 2–5 of the CDM modalities and procedures, the Executive Board of the CDM (hereinafter referred to as “Executive Board” or “Board”) shall report on its activities to each session of the COP. In exercising its authority over the CDM, the COP shall review these annual reports, provide guidance and take decisions, as appropriate. Once the Kyoto Protocol has entered into force, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) will assume these functions upon having adopted draft decision -/CMP.1 (*Article 12*) and its annex, as recommended in decision 17/CP.7.

B. Scope of the report

3. This annual report by the Executive Board provides information to the COP, at its tenth session, on progress made towards the implementation of the CDM during its third year of operation and recommends decisions to be taken by the COP. It reports on operational achievements and governance matters relating to the CDM and on action taken by the Board in accordance with the following decisions of the COP:

- Decision 17/CP.7 and its annex containing the CDM modalities and procedures
- Decision 21/CP.8 and its annexes on the rules of procedure of the Executive Board of the CDM and the simplified modalities and procedures for small-scale CDM project activities
- Decision 18/CP.9 and its annex on procedures for review as referred to in paragraph 41 of the CDM modalities and procedures
- Decision 19/CP.9 and its annex on modalities and procedures for afforestation and reforestation project activities under the CDM in the first commitment period of the Kyoto Protocol.

4. In addition, the report contains information on the resource requirements for administering the CDM in the context of decision 16/CP.9 on the UNFCCC programme budget for the biennium 2004–2005.

5. The annual report to the COP, which provides the overview on substantive and governance matters agreed by the Board during the reporting period, is based on and needs to be read in conjunction with the detailed and current information on respective operations and functions which is available on the UNFCCC CDM web site.¹ This web site serves as the central repository as it contains the reports of the meetings of the CDM Executive Board, including documentation on all matters agreed by the Board, notably regarding the approval of methodologies, the accreditation and provisional designation of operational entities, the registration of CDM project activities, and the issuance of certified emission

¹ <<http://cdm.unfccc.int>>.

reductions (CERs). The web site allows Parties and stakeholders to track documentation relating to operations and functions performed by the Board, its panels, designated operational entities, project participants, experts, the public and the secretariat. It also presents available information on the 64 designated national authorities (DNAs) which Parties have established to date. In addition, it contains a wide range of background documentation (from COP decisions to application forms for experts). The UNFCCC CDM web site is thus the central information and communication point on operational and governance matters on the CDM falling under the supervision of the Board.

6. This report, which covers the period from the end of November 2003 to early September 2004, will be complemented by addenda, as necessary, which will inform the COP at its tenth session on work undertaken between September and early December 2004. Also, the Chair of the Board, Mr. John S. Kilani, will make a presentation to the COP to highlight challenges and achievements during the third year of CDM operations.

C. Action to be taken by the Conference of the Parties

7. In exercising its authority over and in providing guidance to the CDM in accordance with paragraphs 2 and 3 of the CDM modalities and procedures, the COP, at its tenth session, may wish to decide, on the following:

- (a) Procedures for review as referred to in paragraph 65 of the CDM modalities and procedures, as recommended by the CDM Executive Board in accordance with paragraph 5 (o) of the CDM modalities and procedures (see the annex to this document)
- (b) Designations of those operational entities which have been accredited, and provisionally designated, by the Executive Board in accordance with decision 19/CP.9 (see paragraph 15 below)
- (c) The reiteration of the invitation to Parties to make contributions to the UNFCCC Trust Fund for Supplementary Activities to support activities relating to the prompt start of the CDM, including for the operation of the CDM registry
- (d) The provision of guidance to the Executive Board, as necessary, having reviewed the annual report of the Executive Board, in accordance with paragraph 4 of the CDM modalities and procedures, and having taken note of all matters agreed by the Board.

8. In addition, in accordance with paragraphs 7 and 8 (b) of the CDM modalities and procedures and rules 3 and 4.1 (b) of the rules of procedure of the Executive Board, the COP shall, at its tenth session, elect to the Executive Board for a term of two years:²

- (a) One member and one alternate member from the African regional group
- (b) One member and one alternate member from the Asian regional group
- (c) One member and one alternate member from the Latin America and Caribbean regional group

² "Upon the entry into force of the Kyoto Protocol", in accordance with paragraph 3 (b) of decision 17/CP.7, the COP shall invite nominations for membership in the Executive Board "to replace any member of the executive board of the clean development mechanism whose country has not ratified or acceded to the Protocol. Such new members shall be nominated by the same constituencies and elected at the first session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol".

- (d) One member and one alternate member from the Western Europe and Other regional group
- (e) One member and one alternate member from Parties included in Annex I to the Convention (Annex I Parties).

9. The COP is also to elect a member from Parties not included in Annex I to the Convention (non-Annex I Parties). This election could not take place at COP 9 as no nomination had been received during the session. The Board appointed the subsequently nominated replacement for the outgoing member, with a view to an election for that seat on the Board taking place at COP 10 (see table in section III.A).

II. Work undertaken since the ninth session of the Conference of the Parties

10. This chapter highlights key achievements in implementing the CDM since COP 9. The most noted milestones were the first requests for registering proposed CDM project activities, submitted to the Board in early September 2004, and the accreditation by the Board of the first four operational entities in March 2004. With the advancements in the accreditation process and the approval of 15 baseline and monitoring methodologies and 14 simplified methodologies for small-scale project activities covering a wide range of sectors, the Board has put all elements in place for further proposed CDM projects to be submitted for registration.

11. In order to reach this stage of implementation and to facilitate the further expansion of the CDM, the Board has, since COP 9, advanced work in all areas under its preview and supervision. In this context, it experienced a large increase in the volume and complexity of tasks, which often stretched the structure and the resources to the limit. The major tasks accomplished can be summarized as follows:

- Accrediting operational entities which are needed to validate projects before these projects can be submitted for registration and advancing the accreditation process of applicants
- Accelerating the consideration of baseline and monitoring methodologies wherever possible, including undertaking work on their consolidation as well as on the consolidation of tools for the demonstration of additionality
- Setting up the process to facilitate the submission of methodologies for potential afforestation and reforestation project activities, following the adoption of decision 19/CP.9
- Reviewing and updating elements needed for submitting small-scale CDM projects activities
- Clarifying procedures to facilitate the submission of CDM project activities
- Overseeing the process leading towards the establishment of the CDM registry
- Developing procedures relating to the issuance of CERs
- Maintaining close liaison with the Subsidiary Body for Scientific and Technological Advice (SBSTA) on matters of mutual interest.

A. Accreditation process for operational entities

1. Mandate and background

12. The Executive Board is responsible for the accreditation of operational entities and for the provisional designation of such entities pending their designation by the COP. The mandates for the accreditation and designation functions are contained in paragraphs 2, 3 (c), 4 and 6 (b) of decision 17/CP.7 and paragraph 5 (f) of its annex containing the CDM modalities and procedures, as well as in paragraph 1 (d) of decision 21/CP.8 and paragraph 1 (d) of decision 18/CP.9.

13. Further, in accordance with paragraph 5 (g) of the CDM modalities and procedures, the Board is responsible for the review of the accreditation standards contained in appendix A to the CDM modalities and procedures, and, if necessary, for making recommendations to the COP.

14. In its work on accreditation, the Board has been aware that, in accordance with paragraph 4 (b) of the CDM modalities and procedures, the COP is to review the regional and subregional distribution of designated operational entities and take appropriate decisions to promote the accreditation of such entities from developing country Parties. In this context, the COP, by its decision 18/CP.9, requested Parties to promote capacity-building, within the framework of decision 2/CP.7, and to invite intergovernmental organizations (IGOs) and non-governmental organizations (NGOs) to contribute to this effort.

2. Work undertaken and action taken, including decisions, as appropriate

15. The key achievement of the Board in the area of accreditation has been the accreditation and provisional designation of the first operational entities from among the 26 applicant entities (AEs) which have applied to date. This marks a most critical step in putting in place the institutional infrastructure for operating the CDM. In addition, the consideration of other applications has advanced considerably. All applications, and the stage of consideration which each one has reached, can be viewed on the UNFCCC CDM web site.

16. The four AEs which were accredited and provisionally designated for “sector-specific validation”,³ and which are herewith recommended for designation by the COP, at its tenth session, as designated operational entities (DOEs) are:

- Japan Quality Assurance Organization (JQA)
- Det Norske Veritas Certification Ltd (DNV Certification)
- TÜV Industrie Service GmbH TÜV SÜD Group
- Société Générale de Surveillance UK Ltd. (SGS UK Ltd.).

17. In order to indicate the state of progress towards accreditation, an AE receives, prior to accreditation, upon the successful completion of the desk review and the on-site assessment, a letter indicating that it has reached this advanced point in the process. The Board has been informed by its Accreditation Panel (CDM-AP) that, in addition to the letters previously provided to the four AEs

³ The Executive Board had reported to COP 9 that, in order to facilitate applications, an operational entity can be accredited in phases (i.e. first for validation and subsequently for verification) and on a sector-by-sector basis. Hence the term “sector-specific validation”. The scope for which an entity is accredited can be viewed in the section on “Designated Operational Entities” on the UNFCCC CDM web site: <http://cdm.unfccc.int/DOE/list>

listed in paragraph 16, such “indicative letters” were issued to the following four AEs: Tohatsu Evaluation and Certification Organisation (TECO); Japan Consulting Institute (JCI); Bureau Veritas Quality International Holding S.A. (BVQI); and TÜV Industrie Service GmbH belonging to TÜV Rheinland Group.

18. At the time of drafting this report, the remaining 18 applications are at various stages of the CDM accreditation process: three AEs have undergone the on-site assessment and reports are being finalized; three AEs are implementing corrective action as a result of non-conformities identified during on-site visits by the CDM Assessment Teams (CDM-ATs) which are assisting the CDM-AP in its work; three AEs have advanced to the stage where an on-site assessment of their premises is imminent; for five AEs, CDM-ATs are being identified or have been launched; and for three AEs, the documentation submitted was found to be incomplete and re-submission was requested. One AE withdrew its application.

19. Of the 26 applications which have been submitted to the Board since mid-2002, seven have been received since COP 9. The geographical distribution of the 26 applications is as follows: nine are from the Asia and Pacific region, 15 are from the Western Europe and Other region and two are from the Latin America and Caribbean region. Of the five applications from companies in non-Annex I Parties, three are from the Asia and Pacific region and two from the Latin America and Caribbean region. Three out of the seven new applications received since COP 9 are from companies in developing countries, as compared to two out of 19 applications at the time of COP 9.

20. Being aware of the need to facilitate applications from companies from developing countries and for further capacity-building efforts relating to accreditation, as referred to in paragraph 1 (h) of decision 18/CP.9, the Board continued its supportive action in this respect.⁴ Opportunities to present the CDM accreditation scheme to global audiences were seized by members of the CDM-AP and secretariat staff who participated in relevant international meetings, such as of the International Accreditation Forum (IAF) and the International Laboratory Accreditation Cooperation (ILAC). It should also be recalled that, as reported at COP 9, entities from developing countries may opt to pay the non-reimbursable application fee in two instalments (50 per cent at the time of application and the remainder once the entity has been successfully accredited and provisionally designated by the Board).

21. As part of its ongoing effort to facilitate the process of accreditation, the Board undertook to clarify matters relating to the role of a DOE in the CDM process, the purpose of witnessing, and the costs relating to accreditation as follows:⁵

- (a) Regarding the role of a DOE within the governance structure of the CDM, the Board reiterated that the special role of the DOE is to check, on behalf of the Board, that proposals by project proponents are in line with the CDM modalities and procedures and all additional guidance/clarifications provided by the Board. Problems in fulfilling this role may arise from the fact that a DOE is contracted by the client and operates in a competitive environment. In order to ensure common understanding of underlying rules and of respective roles, the Board established the practice of meeting with DOEs and

⁴ The Board, at its fourteenth meeting, in considering matters relating to the relationship with intergovernmental and non-governmental organizations, designated Mr. Richard Muyungi to follow up on issues relating to capacity-building and to keep the Board informed of developments in this respect.

⁵ All clarifications/guidance provided relating to accreditation are contained in the document "Clarification/guidance related to the accreditation of operational entities by the Executive Board of the CDM"(CDM-ACCR03) which is available in the section “Guidance/clarification” on the UNFCCC CDM web site: <http://cdm.unfccc.int/Reference/Guidclarif>.

AEs in conjunction with its meetings and requested the secretariat to convene, in addition, regular meetings with DOEs and AEs to exchange views and experiences

- (b) The Board also provided clarifications/guidance on the purpose of witnessing in the accreditation process, the number of required witnessing activities and the size of projects used as a basis. The purpose of a witnessing activity is to assess whether an AE, within the scope it has applied for, is implementing its tasks in line with its documented quality assurance policy and procedures as well as its procedures for performing validation, and verification and certification, relating to CDM project activities. The Board further clarified that for a project which was used for a successful witnessing activity leading to the accreditation of an entity, that same entity does not need to repeat the respective procedure (e.g. validation) for that project before submitting a request for its registration as a CDM project activity
- (c) The Board, at its thirteenth meeting, further took note of a list of cost-containing measures regarding accreditation referred to the second progress report of the CDM-AP. The CDM-AP also developed a table indicating fees for different steps during an assessment⁶ so that AEs can better assess the approximate costs of accreditation (such as for witnessing activities) which arise in addition to the non-reimbursable accreditation fee. In establishing the level of fees, utmost consideration has been given to the need to keep the costs of accreditation to a minimum while ensuring that the work performed is of highest standard.

22. In carrying out its accreditation functions, the Board was supported by the CDM-AP which met four times during the reporting period. The Board confirmed Mr. John S. Kilani as Chair of the CDM-AP and appointed Ms. Marina Shvangiradze as Vice-Chair after the term of Mr. Oleg Pluzhnikov as a Board member had ended. Stressing the need for continuity, the Board re-designated, in accordance with the terms of reference of the CDM-AP, all previously serving members of the CDM-AP for a second term (1 July 2004 to 30 June 2006): Mr. Takashi Ohtsubo, Mr. Vijay Mediratta, Ms. Maureen Mutasa, Mr. Raúl Prando and Mr. Arve Thendrup. It also decided to replace, henceforth, two or three members every year, with the first round of replacement scheduled for June 2005. Such new members shall, whenever possible, not originate from the same region as the remaining members.

23. The Board expressed its high appreciation for the excellent advice and support received from the members of the CDM-AP and its Chair and Vice-Chair. Assisted by the secretariat, their professional commitment allowed the efficient implementation of the accreditation procedures and the handling of a large and complex body of applications. The Board urged the CDM-AP to continue, with the support of the secretariat, its efforts to increase the number of applications by experts, especially those from developing countries, for inclusion in the roster of experts for CDM-ATs.

24. The Board also expressed its gratitude to members of the CDM-ATs who are undertaking operational tasks in the field on its behalf, and to the public for providing comments on the process. The Board further conveyed its appreciation to the DOEs and AEs for engaging in the CDM process and for showing their commitment to ensuring the environmental credibility and operational flexibility of the CDM.

⁶ The table is available in the section on "Designated Operational Entities" on the UNFCCC CDM web site: <http://cdm.unfccc.int/DOE/accrappl.html>.

B. Methodologies for baselines and monitoring plans

1. Mandate and background

25. The Executive Board has critical responsibilities on methodological matters, notably, in accordance with paragraph 38 of the CDM modalities and procedures, relating to the approval of methodologies for baselines and monitoring plans and the implementation of provisions contained in the CDM modalities and procedures on related matters. These responsibilities entail the following functions:

- (a) Developing and making recommendations to the COP on guidance relating to methodological issues (see appendix C of the CDM modalities and procedures)
- (b) Approving new methodologies relating, inter alia, to baselines, monitoring plans and project boundaries (see paragraphs 5 (d) and 38, and appendix C, of the CDM modalities and procedures).

26. By its decision 18/CP.9, the COP encouraged the Executive Board, where appropriate, to intensify its work on methodologies and to provide further guidance for the development of methodologies which have a broader applicability.

2. Work undertaken and action taken, including decisions, as appropriate

27. Since the Board launched its invitation to project proponents in March 2003 to submit baseline and monitoring methodologies for its consideration, there have been seven rounds during which 66 proposals were forwarded, through accredited or applicant entities, for consideration.

28. The Executive Board has to date approved 15 baseline and monitoring methodologies, six of them during the reporting period. One methodology (AM0001) has been put on hold as of 7 September 2004 as the Board, at its fifteenth meeting, requested its Methodologies Panel to evaluate whether a revision may be necessary in the light of additional information received since the approval of this methodology. With this proviso, the following methodologies have been approved and are ready to be used by project proponents to develop CDM project activities:⁷

- (a) AM0001: Incineration of HFC 23 waste streams (on hold)
- (b) AM0002: Greenhouse gas emission reductions through landfill gas capture and flaring where the baseline is established by a public concession contract
- (c) AM0003: Simplified financial analysis for landfill gas capture projects
- (d) AM0004: Grid-connected biomass power generation that avoids uncontrolled burning of biomass
- (e) AM0005: Small grid-connected zero-emissions renewable electricity generation
- (f) AM0006: GHG emission reductions from manure management systems
- (g) AM0007: Analysis of the least-cost fuel option for seasonally-operating

⁷ Approved methodologies are made available on the UNFCCC CDM web site:
<<http://cdm.unfccc.int/methodologies>>.

- (h) AM0008: Industrial fuel switching from coal and petroleum fuels to natural gas without extension of capacity and lifetime of the facility
- (i) AM0009: Recovery and utilization of gas from oil wells that would otherwise be flared
- (j) AM0010: Landfill gas capture and electricity generation projects where landfill gas capture is not mandated by law
- (k) AM0011: Landfill gas recovery with electricity generation and no capture or destruction of methane in the baseline scenario
- (l) AM0012: Biomethanation of municipal solid waste in India, using compliance with municipal solid waste (MSW) rules
- (m) AM0013: Natural-gas-based package cogeneration
- (n) AM0014: Forced methane extraction from organic waste-water treatment plants for grid-connected electricity supply
- (o) AM0015: Bagasse-based cogeneration connected to an electricity grid.

29. Since the Board started to consider methodologies in March 2003, it has denied approval to 18 baseline and monitoring methodologies. This leaves a balance of 33 cases which are at different stages of consideration. The status and history of each proposed and approved methodology can be seen at any time on the UNFCCC CDM web site.⁸

30. In addition to considering methodologies on a case-by-case basis, the Board, supported by the Methodologies Panel and the secretariat, further intensified its work on methodologies in response to the mandate of the COP at its ninth session and in order to provide further guidance for the development of methodologies which have a broader applicability. Based on extended preparatory work, the Board agreed in September 2004 on the following two consolidated methodologies:

- (a) Consolidated baseline methodology for grid-connected electricity generation from renewable sources
- (b) Consolidated baseline methodology for landfill gas project activities.

31. Once the Board has completed its work in a third critical area, the consolidation of tools for the demonstration of additionality, the two above-mentioned consolidated baseline methodologies will become available for use by project proponents and are expected to ease and accelerate the submission and consideration of projects.

32. In order to further facilitate the submission of proposed CDM project activities and new methodologies by project proponents, the Board also agreed on the following:

- (a) Revisions to the procedures for the submission and consideration of a proposed new methodology (for version 05, see report of the thirteenth meeting of the Executive Board⁹)

⁸ See the section on "Methodologies" on the UNFCCC CDM web site <<http://cdm.unfccc.int/methodologies>>.

⁹ See section on "Reference/procedures" on the UNFCCC CDM web site: <<http://cdm.unfccc.int/Reference/Procedures>>.

- (b) Revisions, with the assistance of the Methodologies Panel, to the project design document (CDM-PDD) in order to include guidance provided by the Board since the adoption of version 01 in August 2002. The following documents have been adopted (effective as of 1 July 2004):
- (i) CDM project design document form (CDM-PDD), version 02
 - (ii) CDM proposed new methodology: baseline (CDM-NMB), version 01
 - (iii) CDM proposed new methodology: monitoring (CDM-NMM), version 01
 - (iv) Guidelines for completing the CDM-PDD, CDM-NMB and CDM-NMM.

33. The Board also adopted a number of measures, notably adjusting its approaches and work processes, with a view to making its work on methodologies as efficient, transparent and cost-effective as possible, addressing the work load of its Methodologies Panel and ensuring that methodologies are considered in a timely and consistent manner. In pursuing these multiple objectives, the overriding concern of the Board is to ensure that processes are, as much as feasible, open to public scrutiny and broad expert input and that approved methodologies are of the highest possible quality, in accordance with the modalities and procedures for the CDM.

34. In this context, the Board continues to draw on the recommendations of its Methodologies Panel which, apart from its own expertise, takes into account the results of desk reviews by experts (two for each methodology) and public input. In order to ensure utmost transparency and the broadest possible engagement of experts and the public, each newly submitted methodology is made available on the UNFCCC CDM web site and is announced through the UNFCCC CDM News facility.

35. The Board is supported in its methodological work by the Methodologies Panel which has met four times since COP 9. The Board expresses its deep appreciation for the excellent quality of technical advice which it has received from members of the Methodologies Panel and from its Chair, Mr. Jean Jacques Becker, and Vice-Chair, Mr. José Domingos Gonzales Miguez. It equally acknowledges the valuable inputs provided from experts (desk reviewers) and the public. Only through this special collective effort and commitment, assisted by the secretariat, was it possible to accomplish the large and challenging workload put before the Board.

36. Based on experience gained, the Board revised the terms of reference of the Methodologies Panel.¹⁰ It also selected five new (*) members (term July 2004 to July 2006), taking fully into account the need for a high level of expertise and regional balance, so that the Panel, in addition to the Chair and Vice-Chair, is composed of the following members: Mr. Felix Babatunde Dayo*, Ms Jane Ellis, Mr. Christophe de Gouvello, Ms Sujata Gupta, Mr. Paata Janelidze*, Mr. Michael Lazarus, Mr. Stanford Johanne Mwakasonda*, Mr. Roberto Schaeffer, Mr. Arturo Villavencio* and Mr. Zhihong Wei*. The Board expressed its deep appreciation to the outgoing members of the Methodologies Panel – Mr. Vladimir Berdin, Mr. Oscar Coto, Mr. Liu Deshun, Mr. Harald Winkler and Mr. Peter Zhou – for their excellent work.

37. The Methodologies Panel is to continue its work in accordance with its revised terms of reference, i.e. making recommendations for the consideration and approval by the Board.¹¹ Supported by

¹⁰ See annex 1 of the report of the thirteenth meeting of the CDM Executive Board on the UNFCCC CDM web site: <<http://cdm.unfccc.int/EB/Meetings/>>

¹¹ For information on the Methodologies Panel refer to section on “Panels” on the UNFCCC CDM web site: <<http://cdm.unfccc.int/Panels/meth/>>.

the secretariat, it is also to make further efforts to increase the number of experts, especially those from developing countries, applying to be included in the roster of experts for undertaking desk reviews of proposed new methodologies. The Board expresses its special gratitude to project proponents who have submitted new methodologies for baselines and monitoring plans. They have made an important contribution to the CDM process which is characterized by a bottom-up, learning-by-doing approach.

38. Updated information on further submissions of methodologies and results of the consideration process, as well as on any other issue relating to methodologies, will be reported to the COP at its tenth session by the Chair of the Board, orally and/or through addenda to this document, as necessary.

C. Afforestation and reforestation project activities

1. Mandate and background

39. The Board has key responsibilities for implementing the provisions of decision 19/CP.9 and its annex on modalities and procedures for afforestation and reforestation project activities under the CDM in the first commitment period of the Kyoto Protocol (hereafter referred as CDM modalities and procedures for afforestation and reforestation project activities). In this context, it has to fulfil the following functions:

- (a) Developing and making recommendations to the COP on guidance on methodological issues relating to CDM afforestation and reforestation project activities (see appendix C of the CDM modalities and procedures for afforestation and reforestation activities)
- (b) Approving new methodologies for afforestation and reforestation relating, inter alia, to baselines, monitoring plans and project boundaries (see paragraphs 4 and 13 and appendix C of the CDM modalities and procedures for afforestation and reforestation project activities).

2. Work undertaken and action taken, including decisions, as appropriate

40. At its first meeting following COP 9, in order to facilitate the submission of new methodologies for afforestation and reforestation project activities by project proponents, the Board agreed to establish, in accordance with paragraph 18 of the CDM modalities and procedures, an expert working group on afforestation and reforestation activities (A/R WG). This group is to develop recommendations to the Board on relevant methodological issues. The Board designated Mr. Eduardo Sanhueza and Mr. Martin Enderlin to be, respectively, the Chair and Vice-Chair of the A/R WG.

41. On the basis of the terms of reference for the A/R WG, approved by the Board in accordance with rule 30 of its rules of procedure, a call for experts was posted on the UNFCCC CDM web site. At its fourteenth meeting, the Board appointed five experts as members of this working group taking fully into account the need for a high level of expertise and regional balance: Mr. Paul Victor Desanker, Mr. Shailendra Kumar Singh, Mr. Wojciech Seweryn Galinski, Mr. Walter Oyhantcabal and Ms. Eveline Trines. As Ms. Trines subsequently declined, the Board designated Mr. Michael Dutschke as her replacement. The A/R WG held its first meeting on 12 and 13 July 2004 in Bonn, Germany. Its reports are publicly available on the UNFCCC CDM web site.¹²

42. In order to facilitate the submission of proposed new methodologies for CDM afforestation and reforestation project activities, the Board agreed on the following forms:

¹² For information on this working group, refer to the section on "Panels" on the UNFCCC CDM web site: <<http://cdm.unfccc.int/Panels/ar>>.

- (a) Project design document for CDM afforestation and reforestation project activities (CDM-AR-PDD), version 01
- (b) Proposed new methodology for CDM afforestation and reforestation project activities: Baseline (CDM-AR-NMB), version 01
- (c) Proposed new methodology for CDM afforestation and reforestation project activities: Monitoring (CDM-AR-NMM), version 01.

43. In addition, the Board issued guidelines for completing these forms and adopted procedures for the submission and consideration of a proposed new methodology for CDM afforestation and reforestation project activities.¹³

D. Simplified modalities and procedures for small-scale clean development mechanism project activities

1. Mandate and background

44. Simplified modalities and procedures for small-scale CDM project activities were adopted by the COP by decision 21/CP.8 and its annex II. In accordance with that annex, the Board shall review and amend, as necessary, appendix B on “Indicative simplified baseline and monitoring methodologies for selected small-scale CDM project activity categories” at least once a year.

2. Work undertaken and action taken, including decisions, as appropriate

45. The Board, with the assistance of its Methodologies Panel, considered proposals on new categories for small-scale CDM project activities and revised, in accordance with the simplified modalities and procedures, appendix B, by incorporating the following:

- (a) Amendment included in annex 2 of the twelfth report of the Executive Board, as already reported to COP 9
- (b) Amendment included in annex 2 of the fourteenth report of the Executive Board on “Type III.E avoidance of methane production from biomass decay through controlled combustion”.¹⁴

46. The Board emphasized that, in accordance with the simplified modalities and procedures, project participants may continue proposing to the Board new categories for small-scale CDM project activities and amendments or revisions to existing simplified methodologies. The Board will continue to review appendix B and amend it, as necessary, at least once a year.

47. In order to expedite the consideration of proposals for new categories for small-scale CDM project activities and amendments or revisions, the Board has agreed to launch a working group to assist it in reviewing proposals. The Board agreed on terms of reference for the working group which is to assist the Executive Board in reviewing proposed methodologies and project categories for small-scale CDM project activities (SSC WG)¹⁵ and designated Mr. Georg Børsting and Mr. Richard Muyungi as its Chair and Vice-Chair, respectively. An invitation to experts to submit their application for consideration

¹³ See section on “Reference/Procedures” on the UNFCCC CDM web site:
<<http://cdm.unfccc.int/Reference/Procedures>>.

¹⁴ The updated appendix B can be found on the UNFCCC CDM web site:
<http://cdm.unfccc.int/Projects/pac/pac_ssc.html>.

¹⁵ For information on this working group, refer to the section on “Panels” on the UNFCCC CDM web site:
<http://cdm.unfccc.int/Panels/ssc_wg>.

as members of the SSC WG was posted on the UNFCCC CDM web site from to 6 September to 1 October 2004.

E. Matters relating to the registration of clean development mechanism project activities

1. Mandate and background

48. The Executive Board is responsible for overseeing and has a critical function in the process leading to the registration of a CDM project activity. In accordance with paragraph 41 of the CDM modalities and procedures, a project activity submitted by an accredited operational entity for registration is automatically registered unless three Board members or one of the Parties involved in the project make a request for review relating to issues associated with the validation requirements.

49. Upon the recommendation of the Board, made in accordance with paragraph 5 (o) of the CDM modalities and procedures, procedures for conducting such a review were approved at COP 9.

50. As reported in its second report to the COP, the Board also instituted a number of procedures and clarifications for facilitating validation and registration.

2. Work undertaken and action taken, including decisions, as appropriate

51. As of 1 September 2004, the first request for registration has been submitted.¹⁶ One additional request followed within the reporting period. Requests are being made by using the web-based registration system which the secretariat has developed and implemented in order to facilitate and efficiently and accurately manage submissions.

52. Another 35 proposed CDM project activities have been submitted for validation. The supporting documentation on all these cases has been made available for comments in accordance with paragraph 40 (b) and (c) of the CDM modalities and procedures.¹⁷

53. The Board has also, in addition to the procedures mentioned above, undertaken to facilitate and clarify tasks relating to the registration of proposed CDM project activities by issuing the following procedures and clarifications:¹⁸

- (a) Validation-related: clarifications on validation requirements to be checked by a DOE (report of the thirteenth meeting of the Executive Board)
- (b) Registration-related: revision to the procedures for registration of a proposed CDM project activity (annex 7 of the report of the fourteenth meeting of the Executive Board).

¹⁶ See section on "Requests for registration of proposed CDM project activities" on the UNFCCC CDM web site: <http://cdm.unfccc.int/Projects>.

¹⁷ See section on "Public availability of PDD" on the UNFCCC CDM web site: <http://cdm.unfccc.int/Projects/Validation>.

¹⁸ See sections on "Reference/procedures" and "Reference/clarifications/guidance" on the UNFCCC CDM web site: <http://cdm.unfccc.int/Reference/Procedures> and <http://cdm.unfccc.int/Reference/Guidclarif>.

F. Clean development mechanism registry

1. Mandate and background

54. In accordance with paragraph 5 (l) of the CDM modalities and procedures, as well as decision 19/CP.9, the Executive Board is to establish and maintain a CDM registry to ensure the accurate accounting of the issuance, holding, transfer and acquisition of CERs, temporary certified emissions reductions (tCERs) and long-term certified emissions reductions (lCERs) by non-Annex I Parties.

55. In accordance with paragraph 5 (o) of the CDM modalities and procedures, the Executive Board is to elaborate, and recommend to the COP/MOP (COP) for adoption, procedures for conducting the review at the stage of issuing CERs as referred to in paragraph 65 of the CDM modalities and procedures, including procedures to facilitate consideration of information from Parties, stakeholders and UNFCCC accredited observers. Until their adoption by the COP/MOP (COP), the procedures shall be applied provisionally.

2. Work undertaken and action taken, including decisions, as appropriate

56. Modalities for the development, establishment and operation of the CDM registry received substantial attention during the reporting period. Ms. Sushma Gera and Mr. Xuedu Lu were requested by the Board to follow these issues, as they are also monitoring developments on the related issue of registries in the context of the SBSTA. In particular, the Board considered issues and options identified by the secretariat concerning the development and operation of the CDM registry.

57. The Board agreed that the CDM registry is to include temporary accounts for Annex I Parties, and project participants from such Parties, until national registries for such Parties and entities are operational, for the purpose of receiving CERs, tCERs and lCERs forwarded to them from the pending account and of transferring such units to accounts in national registries.

58. The Board further agreed that the development and operation of the CDM registry is to enable non-Annex I Parties, and entities from non-Annex I Parties, to transfer CERs, tCERs and lCERs from their holding accounts in the CDM registry to accounts in national registries.

59. In addition, the Board agreed that the secretariat is to be the CDM registry administrator with responsibility, under the authority of the Board, for implementing and operating the CDM registry.

60. Based on responses to a public call to Parties and organizations for inputs to the development of the CDM registry, issued by the Board at its ninth meeting, the two main options for developing and operating the CDM registry were identified as:

- (a) Adaptation of a generic registry to the CDM registry requirements
- (b) New development of the CDM registry by the secretariat.

61. The Board requested the secretariat to further explore the development of the CDM registry, including the possibility of adapting one of the registry software systems identified through the public call for input, taking account of overall cost, user-friendliness of the system and the timing of delivery of the CDM registry. The secretariat therefore conducted a detailed survey of the six systems identified through the public call for input. This survey sought, in particular, to identify the extent to which these systems currently meet the technical requirements of the CDM registry, the extent of adaptation needed for these systems to fully meet the requirements, and possible options for hosting, maintaining and upgrading the CDM registry. Only approximate estimates of resource implications could be given at that

stage, as the full level of resources required for the development and operation of the CDM registry would only become clear once technical details were fully developed and specific proposals were received.

62. The Board requested the secretariat to proceed with the selection, development and implementation of a system as the CDM registry, in accordance with relevant United Nations procurement procedures, while continuing to give priority to assessing the technical functionality and time when the system could be made operational as the CDM registry. The secretariat sent a request to 20 organizations, including those identified by the Board through its public call for input, for proposals on the development and establishment of the CDM registry.

63. Based on the responses to the request for proposals, a contractor will be identified to develop the CDM registry in two phases:

- (a) Phase 1, by the end of November 2004: to develop a CDM registry which can issue and distribute CERs, tCERs and ICERs in accounts within the CDM registry
- (b) Phase 2, by the end of June 2005: to extend the CDM registry so that it can transfer CERs, tCERs and ICERs to accounts in national registries of Annex I Parties.

64. Further information, including detailed timelines and estimates of resource implications, will be included in an addendum to this report.

65. At its fifteenth meeting, the Executive Board agreed on procedures for review at the stage of issuing CERs as referred to in paragraph 65 of the CDM modalities and procedures. In accordance with paragraph 5 (o) of the CDM modalities and procedures, these procedures, as contained in the annex to this report, are recommended for adoption by the COP at its tenth session and will be applied provisionally until the COP has taken a decision.

G. Modalities for collaboration with the Subsidiary Body for Scientific and Technological Advice

1. Mandate and background

66. In paragraph 6 (e) of decision 17/CP.7, the COP requested the Executive Board to identify modalities for seeking collaboration with the SBSTA on methodological and scientific issues.

2. Work undertaken and action taken, including decisions, as appropriate

67. In accordance with rule 14 of its the rules of procedure, the Board agreed to designate members, as necessary, to follow work undertaken by the SBSTA on methodological and scientific issues relating to the work of the Executive Board. The Board designated:

- (a) Ms. Sushma Gera and Mr. Xuedu Lu to continue following deliberations by the SBSTA on technical standards for registry systems and to update the Board on developments (see also section II.F. above)
- (b) Mr. Martin Enderlin and Mr. Eduardo Sanhueza to continue following deliberations by the SBSTA on the simplified modalities and procedures and measures to facilitate small-scale afforestation and reforestation project activities under the CDM, to regularly update the Board on developments, and to share the views of the Board with the SBSTA Chair as necessary.

68. The Board took note of progress made in consultations on the development of technical standards for registries, and on the simplified modalities and procedures and measures to facilitate small-scale afforestation and reforestation project activities under the CDM.

III. Governance matters

A. Membership issues

69. At COP 9, members and alternate members were elected to fill the vacancies arising from the expiration of terms of tenure after a period of two years. The member nominated by the Asian regional group, Mr. Hassan Tajik, resigned and was replaced by Mr. Fareed S. Al-Asaly. The Board appointed Mr. Xuedu Lu, who had been nominated to fill a vacant seat (non-Annex I Parties), with a view to an election for that seat taking place at COP 10. During the reporting period, the Board thus comprised the following members and alternate members (in alphabetical order):

Members	Alternate members	Nominated by
Mr. John W. Ashe	Ms. Desna Solofa	Small island developing States
Mr. Jean-Jacques Becker	Mr. Martin Enderlin	Western Europe and Other regional group
Mr. Georg Børsting (Vice-Chair)	Mr. Hans Jürgen Stehr	Annex I Parties
Mr. John Shaibu Kilani (Chair)	Mr. Ndiaye Cheikh Sylla	African regional group
Mr. Xuedu Lu (see paragraph 69 above)	Mr. Juan Pablo Bonilla	Non-Annex I Parties
Mr. José Miguez (for remainder of mandate of Mr. Gylvan Meira Filho)	Mr. Eduardo Sanhueza	Latin America and Caribbean regional group
Mr. Richard Muyungi	Mr. Hernán Carlino	Non-Annex I Parties
Mr. Sozaburo Okamatsu	Ms. Sushma Gera	Annex I Parties
Ms. Marina Shvangiradze	Ms. Anastassia Moskalenko	Eastern European regional group
Mr. Fareed S. Al-Asaly (for remainder of mandate of Mr. Hassan Tajik)	Mr. Chow Kok Kee	Asian regional group

B. Election of the Chair and the Vice-Chair of the Executive Board

70. In accordance with paragraph 12 of the CDM modalities and procedures and rule 12 of the rules of procedure of the Executive Board, the Board, at its thirteenth meeting, elected by consensus Mr. John Shaibu Kilani, member from non-Annex I Parties (African regional group), and Mr. Georg Børsting, member from Annex I Parties, as Chair and Vice-Chair, respectively, of the Executive Board. Their tenure ends at the first meeting of the Board in 2005.

71. On behalf of the Board, the new Chair expressed the deep appreciation of the Board to the outgoing Chair, Mr. Hans-Jürgen Stehr, and Vice-Chair, Mr. Franz Tattenbach Capra, for their excellent leadership to the Board during its second year of operation.

C. Calendar of meetings of the Executive Board in 2004

72. The Executive Board, at its thirteenth meeting, adopted the following calendar of meetings in 2004, envisaging the need to hold five meetings before COP 10:

Executive Board meetings	Dates	Location
Thirteenth meeting	24–26 March	UNFCCC HQ in Bonn, Germany
Fourteenth meeting	12–14 June	UNFCC HQ in Bonn, Germany (in conjunction with the twentieth sessions of the subsidiary bodies)
Fifteenth meeting	1–3 September	UNFCCC HQ in Bonn, Germany
Sixteenth meeting	21–22 October	UNFCCC HQ in Bonn, Germany
Seventeenth meeting	1–3 December	Buenos Aires, Argentina (in conjunction with COP 10)

73. The agenda and the annotated agenda for each Executive Board meeting, including documentation supporting agenda items, as well as the meeting reports, are available on the UNFCCC CDM web site.¹⁹

D. Implementation of the rules of procedure of the Executive Board

74. The Executive Board, at its thirteenth meeting, noted the adoption at COP 9 of the amendments to rules 4 and 12 of the rules of procedure of the Executive Board, contained in annex I to decision 18/CP.9, and the preambular and operative paragraphs of the same decision relating to the implementation of rules 26 and 27 of the rules of procedure.

75. Based on its experience with the implementation of the rules of procedure to date, the Board currently does not perceive the need to recommend any changes to the COP. For the matters so far before the Board, the rules have allowed the administration of the CDM in an efficient, cost-effective and transparent manner.

76. The following subparagraphs highlight a number of provisions whose implementation is central to the proper functioning of the CDM:

- (a) **Expertise in support of the work of the Executive Board (rule 32):** The Board continues to draw on expertise needed to perform its functions. It receives technical support and recommendations from two panels and two working groups which, in turn, call on additional specialized expertise, for example in the form of CDM-ATs and desk reviewers on methodologies. The following panels and working groups are in place: the CDM Accreditation Panel (five members and two Board members as its Chair and Vice-Chair); the CDM Methodologies Panel (10 members and two Board members as its Chair and Vice-Chair); the CDM A/R WG (five members and one Board member and one alternate member as its Chair and Vice-Chair, respectively); and the CDM Small-Scale Projects Working Group (five members and one Board member and one alternate member as its Chair and Vice-Chair, respectively). In order to enhance common understanding of procedures and to share information, the secretariat, at the request of

¹⁹ For information on meetings of the Board, refer to the UNFCCC CDM web site: <<http://cdm.unfccc.int/EB/Meetings>>.

the Executive Board, organized the second joint workshop for the Board, members of the panels and the A/R WG, members of CDM-ATs, desk reviewers of methodologies and representatives of provisionally designated operational and applicant entities. The one-and-a-half-day workshop took place on 3 and 4 September 2004 in Bonn, Germany, immediately following the fifteenth meeting of the Executive Board and in conjunction with scheduled meetings of the two panels and the A/R WG;

- (b) **The role of the secretariat (rule 33):** The secretariat, in accordance with paragraph 19 of the CDM modalities and procedures and rule 33 of the rules of procedure, services the Executive Board. The Deputy Coordinator of the Cooperative Mechanisms (COOP) programme assumes the functions of secretary to the CDM Executive Board. Staff of the COOP Project-based Mechanisms subprogramme, mainly being funded from extra-budgetary resources, provide technical and organizational support, drawing on services and expertise within other programmes of the secretariat as necessary. The servicing of the Board, its two panels and the two working groups – together with the management of associated experts for specialized technical input (e.g. desk reviewers and assessment teams) – as well as the maintenance of the UNFCCC CDM web site and responding to external queries, are the major and most resource-intensive functions. In addition, the secretariat undertakes to mobilize resources for the CDM and manages them as well as the income from fees for accreditation and registration. It provides regular reports to the Board on the status of resources for work on the CDM (see also chapter IV below);
- (c) **The communications network (rules 24–26 and 32–33):** In order to allow for the efficient, cost-effective and transparent exchange of information between the Board, its panels, working groups and experts, and the secretariat, the secretariat set up and continues to maintain several electronic communication facilities: extranets (7), listservs (more than 55) and discussion tools (see table below). These facilities are connected to the UNFCCC CDM web site,²⁰ which also provides functions to designated and applicant operational entities and to project developers. In addition, there are links to designated national authorities (64 to date) and for public input (see box 1 below). The use of these electronic facilities for the provision of information and the day-to-day operation of the CDM is essential to the smooth and cost-effective functioning of the CDM. Considerable savings have also been achieved by arranging telephone conferences for panels and CDM assessment teams (CDM-ATs) which support the work of the CDM Accreditation Panel;

²⁰ <<http://unfccc.int/cdm>>.

Facilities for electronic communication (via extranet, internet and e-mail)

User group	Extranet	Listserv (e-mail)	Discussion tool (web)	Other
CDM Executive Board	✓	✓	✓	x
CDM Methodologies Panel	✓	✓	✓	Online input
CDM Accreditation Panel	✓	✓	✓	Online input
CDM Afforestation and Reforestation Working Group	✓	✓	✓	Online input
CDM Assessment Teams (CDM-ATs)	Under development	~50 users (2 per team)	Under development	x
Desk reviewers (experts on methodologies)	✓	✓ (one way)	x	x
Designated operational entities	✓	✓	Under consideration	Online submission for request for registration and proposed new methodologies
Applicant operational entities	✓	✓	Under consideration	Online submission of proposed new methodologies
Designated national authorities (DNA)	Under development	✓	x	x
Public	x	x	x	UNFCCC CDM web site UNFCCC CDM News facility Online submission for call for inputs

(d) **Transparency and attendance (rules 26 and 27):** The COP, in the preamble to its decision 21/CP.8, providing guidance to the Executive Board, had encouraged the Board to continue reporting on the implementation of rules 26 and 27 of the rules of procedure. In decision 18/CP.9, further reference was made to the implementation of rules 26 and 27 of the rules of procedure (preambular paragraph and operative paragraph 1 (e)). In accordance with paragraph 5 (b) of the CDM modalities and procedures, the Board is to keep its rules of procedure under review, including rules 26 and 27, and, if necessary, make recommendations on any amendments or additions aimed at safeguarding the efficient, cost-effective and transparent functioning of the CDM:

- Further to the provisions of the CDM modalities and procedures for the Executive Board to make information publicly available (in particular, paragraph 5 (i), (j), (k) and (m)), rule 26 stipulates that, subject to the need to protect confidential information, the principle of transparency should apply to all the work of the Board. This encompasses the timely public availability of documentation and channels

through which external comments by all Parties, and all UNFCCC accredited observers and stakeholders, can be submitted for consideration by the Board. The posting of information on the Board's meetings on the Internet is one way to ensure such transparency

- Further to paragraph 16 of the CDM modalities and procedures, rule 27 stipulates that meetings of the Executive Board shall be open to attendance, as observers, by all Parties and by all UNFCCC accredited observers and stakeholders, except where otherwise decided by the Board. It further foresees that observers may, upon invitation by the Board, make presentations relating to matters under consideration by the Board
- Detailed measures to further the implementation of rules 26 and 27 – among them the enhancement of the UNFCCC CDM web site; meetings between the Board and Parties and accredited observers; and the review by the Board of modalities for attendance by observers at its meetings – are shown in box 1 and box 2 below
- On a general note, the Board has been very encouraged by the increasing scope and depth of interactions on CDM issues and wishes to express its appreciation for the feedback and useful contributions received from the ever-widening CDM community. Increased global interest in the CDM was, inter alia, evident from the use made of viewing Board meetings via the Internet (live or as video-on-demand) which allows relatively cheap and equitable access on a global scale: more than 800 individuals, on average, visited the UNFCCC CDM web cast for this purpose. To the extent that they are traceable, such visits were made from Africa (23), Asia (280), Europe (390), Middle East and Oceania (10), North America (934) and South America (37)
- Bearing in mind decisions 21/CP.8 and 18/CP.9, and the Board's continued efforts to improve, wherever called for, its interaction with Parties, stakeholders and the public, the Board considers that the current application of rules 26 and 27 of its rules of procedure during the reporting period has allowed it to achieve the multiple principles of efficiency, cost-effectiveness and transparency. The Executive Board also took note of paragraph 97 of the conclusions of the SBI at its twentieth session (FCCC/SBI/2004/10) on effective participation.

Box 1 Implementation of rule 26

The primary means for informing and communicating on the CDM is through the UNFCCC CDM web site (<http://unfccc.int/cdm>). It has been continuously improved by the secretariat to ensure that it efficiently serves as the authoritative source of information on the CDM. It contains the entire body of CDM documentation, ranging from agendas, supporting documentation and reports of each Executive Board, panel or working group meeting to all procedures and forms needed to make a submission. Meetings of the Board can be viewed through this web site, live and as video-on-demand.

More than 3,000 registered and 4,500 unregistered users consulted the UNFCCC CDM web site during the first eight months of 2004. Feedback from users indicates that the UNFCCC CDM web site is seen as a user-friendly tool which allows visitors from all continents to have ready and cheap access to first-hand information on all CDM matters. The recent redesign of the web site will further facilitate its use. In addition, stakeholders and the public are alerted by the secretariat on current CDM matters through the UNFCCC CDM News facility (2,400 subscribers). Resources permitting, the secretariat also follows up on an ever-increasing number of specialized requests for information.

In order to facilitate communications and interactions between the Board, its panels, working groups and experts, operational entities, designated national authorities and project proponents, the secretariat and the public, the secretariat has set up electronic means for providing input and automated electronic work processes. These tools are all linked to the UNFCCC CDM web site. The use of these tools, including dedicated extranets and discussion tools (see table in section III. D. above), allows the CDM process with its ever-expanding volume of work to be managed transparently, within established time frames and limited resources. Among the functions carried out online are:

- access to the three rosters of experts
- selection of experts
- submission and processing of proposed new methodologies
- application for accreditation,
- call for comments at validation stage and the request for registration.

The public has been using the opportunity to comment, through electronic means, on CDM matters by making 89 comments on 64 proposed new methodologies^a and five comments relating to 23 applicant entities^b. The secretariat has been able to provide support to the above-mentioned CDM functions in a cost-effective, flexible, readily accessible and timely manner by designing and using open-source management software.

^a At its eighth meeting, the Board agreed, in its procedures for submission and consideration of a proposed new methodology, to make proposed new methodologies submitted to the Board publicly available on the UNFCCC CDM web site (and to make an announcement through the UNFCCC CDM News facility) and to invite public inputs on these for a period of 15 working days.

^b In accordance with paragraph 17 of the procedure for accreditation of operational entities by the Executive Board, the redesigned web site contains a dedicated input facility. This facility gives Parties, UNFCCC accredited NGOs and stakeholders the opportunity to provide any comments or information on an applicant entity within 15 days after announcement through the UNFCCC CDM News facility.

Box 2 Implementation of rule 27

Further to paragraph 1 (e) of decision 18/CP.9, the Board, in particular bearing in mind the need to ensure the efficient, cost-effective and transparent functioning of the CDM, requested the secretariat to continue the agreed practice of securing at space sufficient to accommodate about 50 observers at its meetings. Accredited observers need to register with the secretariat at least three weeks before a meeting to allow appropriate logistical and administrative arrangements to be made. The Board, keeping the functioning of this arrangement under review, has the possibility of revising this policy at each meeting for the subsequent meeting. In this context, in particular when meetings are held in conjunction with sessions of the COP (COP/MOP) or the subsidiary bodies, the Board has requested the secretariat to bear in mind, when arranging future meetings, the issue of modalities for physical access of stakeholders. On the occasion of Board meetings held in conjunction with COP 9 and the twentieth sessions of the subsidiary bodies, the secretariat therefore ensured that additional observer space was available.

Altogether, 48 observers have registered during the reporting period – an average of 16 per meeting. One third of these represented Parties and most others came from environmental and business NGOs. Two observers were nationals of non-Annex I Parties and 46 were from Annex I Parties, with the following regional distribution: Asia (17 per cent), Europe (66 per cent), North America (15 per cent) and South America (2 per cent).

In its efforts to promote dialogue and provide specific information to Parties and registered accredited observers, the Board has also conducted informal briefings in conjunction with its meetings. Observers have expressed satisfaction with the arrangements made and with the opportunities given for direct exchanges with the Board.

In addition to the regularly scheduled informal briefings for observers, the Board organized question-and-answer sessions at COP 9 and at the twentieth sessions of the subsidiary bodies. These information events were well attended and provided an opportunity for dialogue on critical issues before the Board. Moreover, communications received from Parties, IGOs and NGOs on an ad hoc basis were reflected under the agenda item “other matters”, if appropriate. The Board has asked two of its members to follow up on these communications, as necessary.

The Chair of the Board also continues to meet representatives of IGOs, NGOs, local governments and indigenous peoples when additional suitable opportunities arise.

The Board further established the practice of meeting designated and applicant entities to discuss issues of mutual concern and, at its fourteenth meeting, requested the secretariat to convene a forum for DOEs and AEs, to be held as necessary.

IV. Resources for the work on the clean development mechanism

A. Mandate and background

77. According to Article 12.8 of the Kyoto Protocol, the COP/MOP shall ensure that a share of the proceeds from certified project activities is used, inter alia, to cover administrative expenses. Bearing in mind that this is only feasible once CDM project activities yield proceeds of sufficient magnitude, the COP, by its decision 17/CP.7:

- (a) Invited Parties to finance the administrative expenses for operating the CDM, in particular to facilitate its prompt start, by making contributions to the UNFCCC Trust Fund for Supplementary Activities, with the possibility of reimbursement upon request;
- (b) Stipulated that the COP shall determine the level of the share of proceeds to cover administrative expenses, upon the recommendation of the Executive Board;
- (c) Requested the Executive Board to charge a fee to recover any project-related expenses until the COP has determined a percentage for the share of proceeds for the administrative expenses.

78. The COP, by its decision 38/CP.7, provided an initial estimate of the resource requirements to facilitate the prompt start of the CDM during the biennium 2002–2003, amounting to USD 6.8 million. These resources were required to meet the costs of operational functions and were additional to those contained in the UNFCCC programme budget for the biennium 2002–2003 for work relating to the further design and development of project-based mechanisms in general and of the CDM in particular.

79. The Executive Board completed its entire work programme 2002–2003 as planned. The Board had reported to the COP at its eighth and ninth sessions on the progress made in 2002 and 2003 through its first and second annual reports and the addenda thereto (documents FCCC/CP/2002/3 and Add.1, and FCCC/CP/2003/2 and Add.1). The COP expressed its satisfaction with the results achieved and provided further guidance to the Board through decisions 21/CP.8 and 18/CP.9 and their respective annexes. Through these same decisions, the COP also reiterated its invitation to Parties to contribute to the UNFCCC Trust Fund for Supplementary Activities for the prompt start of the CDM.

80. In the context of the UNFCCC programme budget 2004–2005, the COP, by its decision 16/CP.9, provided for limited core resources relating to the developmental work on project-based mechanisms, including the CDM. That same decision included a provision through which part of the operational work of the CDM would be supported from the Kyoto Protocol Interim Allocation in 2005 (subject to entry into force of the Kyoto Protocol), whereas another part would need to rely on continued contributions by Parties made to the UNFCCC Fund for Supplementary Activities. These latter resources are complemented to the extent that case-specific fees are received: non-reimbursable fees from applicant entities for accreditation services and non-reimbursable fees from project proponents for the processing of requests for the registration of projects as reported to and noted by the COP at its eighth session.

B. Work undertaken and action taken, including decisions, as appropriate

81. During the reporting period, the Executive Board, based on reports by the secretariat at each of its meetings, monitored and reviewed the resource requirements in 2004–2005 (based on the project document “Resource requirements for the prompt start of the CDM” of February 2004); the operational costs of the CDM; and incoming resources, including cost recovery schemes. In this context, the Board reiterated the call by the COP to Parties for continued contributions for the prompt start of the CDM so that the work could be carried out in a predictable and sustainable manner.

1. Resource requirements in the biennium 2004–2005

82. Of the total resources required in 2004–2005 for CDM operations, the COP at its ninth session had agreed that USD 5.23 million (including overhead and working capital reserve) would need to come from extra-budgetary sources, and USD 1.32 million (excluding overhead and working capital reserve) was assumed to be covered under the Kyoto Protocol Interim Allocation if it comes into effect on 1 January 2005. As long as the Kyoto Protocol has not entered into force, the above-mentioned resource requirements would need to be covered entirely from voluntary contributions to the UNFCCC Trust Fund for Supplementary Activities.

83. The resource requirements for CDM operations in 2004–2005 are grouped in four major clusters (costs including overhead are in parentheses) as follows:

- (a) Meetings of the Executive Board (USD 678,000 for 12 meetings)
- (b) Activities of panels (accreditation, methodologies) and working groups (afforestation/reforestation and small-scale projects); related specialized expertise/consultants and joint (internal) workshops (USD 1.80 million)
- (c) Workshops in support of the CDM and relating to Article 12, paragraph 6, of the Kyoto Protocol (USD 339,000 for three workshops in 2005)
- (d) Activities by the secretariat, including for hardware/software for the UNFCCC CDM web site and the CDM registry; consultants to render technical services; and staff and staff-related costs (USD 3.23 million).

2. Expenditures in 2004 (until 31 August 2004)

84. During the first eight months of 2004, expenditures for undertaking operational activities relating to the four above-detailed clusters amounted to USD 1.18 million, distributed as follows: meetings of the Executive Board, USD 124,875 (three meetings); activities of panels etc., including one joint (internal) workshop, USD 645,710; workshops (no expenditure because activities are scheduled for 2005); and activities by the secretariat, USD 411,266.

85. By comparison, expenditures for operational activities during the biennium 2002–2003 had totalled USD 1.53 million (meetings of the Executive Board, USD 444,012 (12 meetings); activities of panels, etc., USD 833,130; workshops (none); and activities by the secretariat, USD 251,661). The increase in the level of expenditure from 2002–2003 to 2004 reflects the tremendous growth in the scope and complexity of the case load and the related needs for technical and logistical support.

86. The Board, conscious of the need to keep transaction costs for the CDM to a minimum, continued to routinely review the costs relating to the operation of the CDM. It therefore kept its schedule and the number of meetings of the Board and its panels/working groups under scrutiny and,

assisted by the secretariat, implemented cost-cutting measures, for example linking such meetings with the joint workshop referred to above.

87. In this context, the number of Board meetings in 2004 was reduced from six to five, but the number of meeting days had to be extended from two to three in order to be able to cope with the workload. In addition, meetings are, whenever possible, arranged in proximity with or during weekends in order to benefit from lower air fares and to facilitate the attendance of members who all have full time employment elsewhere and need to handle CDM matters in their spare time. In this context, the Board wishes to point out clearly that, in order to achieve the smooth functioning of the CDM and to cope with an increasing volume and complexity of work, members of the Board, panels, and working groups, as well as staff of the secretariat, continue to make major contributions of their own time.

3. Incoming resources from Parties and cost recovery schemes

88. Since the inception of the CDM, in response to invitations by the COP, repeated calls by the Executive Board and communications from the Executive Secretary to Parties, 13 Parties (Canada, Denmark, the European Community, France, Germany, Italy, Japan, Luxembourg, Netherlands, Norway, Sweden, Switzerland and the United Kingdom of Great Britain and Northern Ireland) generously contributed or pledged to contribute to the CDM. These contributions have been essential for keeping the CDM operational and are acknowledged with great appreciation.

89. The contributions received from Parties in 2002–2003 amounted to USD 2.97 million (against USD 3.77 million pledged). Together with the fees and an internal transfer, the total amount which had gradually become available for the prompt start of the CDM, mostly towards the end of the biennium 2002–2003, stood at USD 3.55 million. Bearing in mind that the operational expenditures in 2002–2003 amounted to USD 1.53 million, the carry-over to the biennium 2004–2005 was about USD 2 million.

90. During the reporting period, seven Parties (Canada, the European Community, France, Luxembourg, Netherlands, Norway and Sweden) made commitments and an amount of USD 0.94 million was received (against USD 1.34 million pledged). In addition, fees were received for applications for accreditation²¹ and requests for registration²². Total resources available in 2004 to date amount to USD 3 million.

91. Bearing in mind the increase in operational expenditures during the first eight months of 2004 (USD 1.2 million) as a function of the increasing case load, and with expectations being that this development will further accelerate, the currently available resources of USD 1.8 million will be largely exhausted in early 2005. Until resources become available from the Kyoto Protocol Interim Allocation and pending a considerable flow of fees from requests for registration, there is a pronounced need for continued voluntary contributions from Parties to support the prompt start of the CDM. In order to allow the CDM to be operated in a planned and sustainable manner, the Board therefore recommends that the

²¹ An application fee of USD 15,000 is payable by an applicant entity at the time it applies. Since the start of the accreditation process, a total of USD 374,839 has been received from 26 applicant entities, with two applicant entities from developing countries opting to pay in instalments. During the reporting period, USD 67,427 has been received from five applicant entities.

²² A registration fee is raised as a down-payment until a share of proceeds to cover administrative expenses is determined. The fee depends on the size of a proposed CDM project activity. It ranges from a minimum of USD 5,000 (for a project producing a reduction of up to 15,000 tonnes of CO₂ equivalent per year on average over the crediting period (estimated/approved)) to a maximum of USD 60,000 (for a project producing a reduction exceeding 200,000 tonnes of CO₂ equivalent per year on average over the crediting period (estimated/approved)). Since the start of the registration process, a total of USD 60,000 has been received.

COP repeats its appeal to Parties to make contributions to the UNFCCC Trust Fund for Supplementary Activities for the remainder of the biennium 2004–2005.

92. As experience is gained and actual cost data become more precise, the Board will review and, if necessary, revise the fees for applications for accreditation and for requests for registration. To the extent that information accrues, the Board will also be in a position to make a recommendation to the COP regarding the level of the share of proceeds to cover administrative expenses, also bearing in mind that more reliable information is needed on the value/price of CERs and the likely volume of CERs issued annually.

V. Summary of decisions

93. In accordance with rule 38 of the rules of procedure of the Executive Board, the report of each Board meeting has been made publicly available on the UNFCCC CDM web site.

94. The Board agreed to implement the provision contained in paragraph 17 of the CDM modalities and procedures, whereby decisions of the Board shall be made publicly available in all six official languages of the United Nations, by including or referring to them, indicating their placement on the UNFCCC CDM web site, in its annual report to the COP (see also section I. B, in particular paragraph 4).

Annex

Procedures for review as referred to in paragraph 65 of the modalities and procedures for a clean development mechanism

I. Background

1. In accordance with paragraph 5 (o) of the modalities and procedures for a clean development mechanism (CDM modalities and or the procedures), the Executive Board shall elaborate and recommend to the Conference of the Parties (on the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol), for adoption at its next session, procedures for conducting the reviews referred to in paragraphs 41 and 65 of the CDM modalities and procedures, including procedures to facilitate consideration of information from Parties, stakeholders and UNFCCC accredited observers.
2. Paragraph 65 of the CDM modalities and procedures stipulates that the issuance of certified emission reductions (CERs) by the Executive Board shall be considered final 15 days after the date of receipt by the Executive Board of the request for issuance, unless a Party involved in the project activity or at least three members of the Executive Board request a review of the proposed issuance of CERs. Such a review shall be limited to issues of fraud, malfeasance or incompetence of the designated operational entities and be conducted as follows:
 - (a) Upon receipt of a request for such a review, the Executive Board, at its next meeting, shall decide on its course of action. If it decides that the request has merit, it shall perform a review and decide whether the proposed issuance of CERs should be approved
 - (b) The Executive Board shall complete its review within 30 days following its decision to perform the review
 - (c) The Executive Board shall inform the project participants of the outcome of the review, and make public its decision regarding the approval of the proposed issuance of CERs and the reasons for it.
3. The draft procedures for review proposed below aim at elaborating on the provisions in paragraph 65, in particular by specifying detailed provisions for requesting a review, the scope of review, modalities for communicating with project participants and the designated operational entity (DOE) in question, possible outcomes of a review, and the coverage of costs relating to the review.

II. Request for review

4. A request for review by a Party involved in the CDM project activity shall be sent by the relevant designated national authority to the Executive Board, through the secretariat, using official means of communication (such as recognized official letterhead and signature or an official dedicated e-mail account). The secretariat shall acknowledge the receipt of a request for review and promptly forward the request to the Executive Board via the listserv.
5. A request for review by a member of the Executive Board shall be sent to the Executive Board through the secretariat. The secretariat shall acknowledge the receipt of a request for review and promptly forward the request to the Executive Board via the listserv.

6. In accordance with paragraph 65 of the CDM modalities and procedures, a review shall be limited to issues of fraud, malfeasance or incompetence of the designated operational entities and a request for review shall, therefore, be specific in this regard.

7. A request for review shall provide reasons for the request for review and any supporting documentation.

8. A request for review shall be considered received by the Executive Board on the date it has been received by the secretariat. The Executive Board will not consider a request for review if it is received after 17:00 GMT of the last day of the 15 day period after the receipt of the request for issuance of CERs.

9. As soon as a Party involved in the CDM project activity or three Executive Board members request a review of a proposed issuance of CERs, the following action shall be taken:

- (a) The consideration of a review of the proposed issuance of CERs shall be included in the proposed agenda of the next Executive Board meeting
- (b) The Executive Board shall notify the project participants and the DOE that verified the monitored reductions and certified the reductions achieved by the CDM project activity that a review has been requested. The project participants and the DOE shall be informed about the date and venue of the Executive Board meeting at which the request for review will be considered. Stakeholders interested in the review process shall also be given an opportunity to attend the Executive Board meeting
- (c) The project participants and the DOE shall each provide a contact person for the review process, including for a conference call, in case the Executive Board wishes to address questions to them during the consideration of a review at its meeting
- (d) The proposed issuance of CERs shall be marked as being “under review” on the UNFCCC CDM web site and a notification shall be sent through the UNFCCC CDM News facility.

III. Scope and modalities of review

10. The Executive Board shall consider, at its next meeting, a request for review, and shall either decide to perform a review of the proposed issuance of CERs or to approve the issuance.

11. If the Executive Board agrees to perform a review of a proposed issuance of CERs, it shall, at the same meeting, decide on:

- (a) The scope of the review relating to issues of fraud, malfeasance or incompetence of the designated operational entities, based on the consideration in the request for a review
- (b) The composition of a review team. The review team shall consist of two Board members, who will be responsible for supervising the review, and outside experts, as appropriate.

12. The review team, under the guidance of the Board members responsible for supervising the review, shall provide inputs, prepare requests for clarification and further information to the DOE and project participants, and analyse information received during the review.

IV. Review process

13. The decision by the Board, including on the scope of a review and the composition of a review team, shall be made publicly available as part of the report of its meeting.
14. A notification of the decision by the Executive Board shall be sent to the project participants and the DOE that verified the monitored reductions and certified the reductions achieved by the CDM project activity.
15. Requests for clarification and further information may be sent to the DOE and the project participants. Answers shall be submitted to the review team, through the secretariat, within five working days after the receipt of the request for clarification. The secretariat shall acknowledge the receipt of the answers and forward them to the review team.
16. The two Board members supervising the review shall be responsible for compiling inputs and comments and preparing the recommendation to be forwarded to the Executive Board via listserv.

V. Review decision

17. In accordance with paragraph 65 of the CDM modalities and procedures, the Board shall complete its review within 30 days following its decision to perform the review.
18. Taking into consideration recommendations by the two Board members responsible for the review, the Board shall decide on whether:
 - (a) To approve the proposed issuance of CERs;
 - (b) To request the DOE to make corrections based on the findings from the review before approving the issuance of CERs;
 - (c) To decline to approve the proposed issuance of CERs.
19. In accordance with paragraph 65 of the CDM modalities and procedures, the Board shall inform the project participants of the outcome of the review, and make public its decision regarding the approval of the proposed issuance of CERs and the reasons for it.
20. If the review indicates any issues relating to performance of the DOE, the Board shall consider whether or not to trigger a spot-check of the DOE, in accordance with the procedures for accrediting operational entities.

VI. Coverage of costs of the request for review

21. The Executive Board shall bear the costs for reviewing a proposed issuance of CERs. If the Executive Board decides not to approve a proposed issuance of CERs and if a DOE is found to be in the situation of malfeasance or incompetence, the DOE shall reimburse the Board for the expenses incurred as a result of the review. This provision is subject to review as experience accrues.
