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**REPORT OF THE EXECUTIVE BOARD
OF THE CLEAN DEVELOPMENT MECHANISM**

**Annual report of the Executive Board of the clean development mechanism
to the Conference of the Parties (2002–2003)**

Addendum*

Summary

The report of the Executive Board of the clean development mechanism (CDM) for the period 2002–2003 (FCCC/CP/2003/2) covers work undertaken from November 2002 to July 2003. This addendum to the report provides additional information to the Conference of the Parties (COP), for consideration at its ninth session, on progress made in the period from August to end of November 2003 towards the implementation of the CDM during its second year of operation. This addendum refers mainly to the accreditation of operational entities and the approval of new methodologies for baselines and monitoring. It recommends two additional provisions to be covered by the decision on guidance to the Executive Board of the CDM, to be adopted by the COP at its ninth session.

This addendum to the report also provides additional information on measures taken to ensure the transparent functioning of the CDM and on modalities for attendance by observers at CDM Executive Board meetings, as well as updated information on administrative expenses and resources relating to the operation of the CDM in the biennium 2002–2003 and in the forthcoming biennium 2004–2005.

The Chair of the Executive Board, Mr. Hans Jürgen Stehr, will present the report and the addendum to the COP.

* Submission of this document was delayed until 2 December 2003 in order to take into account the last Executive Board meeting in the reporting period which took place on 27 and 28 November 2003.

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I. INTRODUCTION

A. Mandate

1. The Conference of the Parties (COP), by its decision 17/CP.7, decided to facilitate a prompt start for a clean development mechanism (CDM); the annex to that decision contains modalities and procedures for a CDM (hereinafter referred to as “the CDM modalities and procedures”) (FCCC/CP/2001/13/Add.2).

2. Bearing in mind paragraphs 2, 4 and 19 of decision 17/CP.7, and in accordance 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, until the entry into force of the Kyoto Protocol, report on its activities to each session of the COP and the COP shall review these reports. Once the Protocol has entered into force, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP), by adopting draft decision -/CMP.1 (*Article 12*), recommended by the COP at its seventh session, shall have authority over and provide guidance to the CDM.

B. Scope of this addendum

3. The second annual report by the Executive Board (FCCC/CP/2003/2) provides information to the COP, at its ninth session, on progress made towards implementation of the CDM during its second year of operation, and recommends decisions to be adopted by the COP at its ninth session, as appropriate. It covers tasks carried out and procedures followed during the period between 2 November 2002 and 29 July 2003. This addendum covers the period 30 July to 28 November 2003.

4. The Chair of the Board, Mr. Hans Jürgen Stehr, will present the report and this addendum to the COP at its ninth session.

C. Action to be taken by the COP

5. The COP, at its ninth session, may wish to take the following actions, in addition to those identified in document FCCC/CP/2003/2:

(a) In accordance with the provisions of paragraphs 3 and 4 of the CDM modalities and procedures:

- (i) Review and take note of this addendum to the annual report of the Executive Board (2002–2003);
- (ii) Consider the need to promote capacity-building with a view to obtaining more applications from operational entities located in Parties not included in Annex I to the Convention (non-Annex I Parties);

(b) Consider the annexes to this addendum with a view to including provisions in its decision on guidance to the Executive Board of the CDM on:

- (i) Amendments to rules 4 and 12 of the rules of procedure of the Executive Board (see annex I);
- (ii) A clarification relating to paragraph 13 of decision 17/CP.7 (see annex II);

(c) Take note of further progress on the accreditation of operational entities and the approval of methodologies.

II. ORGANIZATIONAL MATTERS BEFORE THE EXECUTIVE BOARD

A. Calendar of meetings of the Executive Board in 2003 (and 2004)

6. Since July 2003, the Executive Board has held two meetings: the eleventh meeting on 16–17 October 2003 in Bonn, Germany, and the twelfth meeting on 27–28 November 2003 in Milan, Italy (in conjunction with COP 9). It decided that its thirteenth meeting be held on 1–2 March 2004 in Bonn, Germany. The calendar for meetings in 2004 will be considered at that meeting.

7. The annotated agenda for each meeting, including documentation supporting agenda items and the report of each Executive Board meeting, is available on the UNFCCC CDM web site,¹ as are the Internet video-on-demand of the meetings.

B. Membership

8. No change.

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

9. No change.

D. Rules of procedure of the Executive Board

10. The Executive Board was mindful of the need to ensure continuity of work by the Board, in particular with regard to the Chair and Vice Chair being in office, after the election of new members and alternates, between the end of the year and the first meeting of the Board in a calendar year following the election. It therefore agreed on a recommendation to the COP for consideration at its ninth session (see annex I to this addendum).

E. Internal communication

11. During the reporting period covered by this addendum, 10 additional listservs for CDM assessment teams were established. An additional on-line tool has been set up whereby operational entities can make publicly available CDM project design documents (PDD) submitted in the context of the validation of proposed CDM project activities.

III. WORK PLAN UNDERTAKEN SINCE THE EIGHTH SESSION OF THE CONFERENCE OF THE PARTIES

A. Accreditation process for operational entities

1. Mandate and background

12. No change.

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

13. Since 29 July 2003, three additional applications for accreditation have been received; the total number of applications now stands at 19.²

¹ <http://unfccc.int/cdm>

² See section on “Designated operational entities” on the UNFCCC CDM web site: <http://cdm.unfccc.int/DOE/>

14. The 19 applications are at various stages of consideration: four applicant entities (AEs) have advanced to the stage where an “indicative letter”³ will be issued (on 1 December 2003)⁴; two companies whose on-site assessment has taken place are identifying corrective actions, in accordance with the procedure for accreditation; for two other companies, the dates of the on-site assessments have been confirmed; for another two the dates for the on-site assessment are being planned; two companies requested a three-month delay of the determination of the dates for the on-site assessment; for two companies the desk review is being finalized; and the five most recent applications are in the initial stages of consideration.

15. The geographical distribution of the applications is as follows: eight are from the Asia and Pacific region and 11 from the Western Europe and Other region. Two applicants from the Asia and Pacific region are from entities located in non-Annex I Parties (Republic of Korea and Malaysia).

16. The Board, at its twelfth meeting, agreed to recommend that the COP consider the need for promoting capacity-building with a view to obtaining more applications from operational entities located in non-Annex I Parties.

B. Simplified modalities and procedures for small-scale CDM project activities

1. Mandate and background

17. No change.

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

18. The Executive Board, at its twelfth meeting, agreed to amend the “Indicative simplified baseline and monitoring methodologies for selected small-scale project activity categories” contained in appendix B of the simplified modalities and procedures for small-scale CDM project activities (annex 2 to the report of that meeting). Version 02 of appendix B shall be made publicly available under the section “How to do a small scale CDM project activity” of the UNFCCC CDM web site.

C. Methodologies for baselines and monitoring plans

1. Mandate and background

19. No change.

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

20. During the period covered by this addendum, 20 additional proposals for new baseline and monitoring methodologies have been submitted in three further rounds of submission (third round deadline 16 July 2003; fourth round deadline 10 September 2003; fifth round deadline 23 January 2004). Since the launch of this process in March 2003, a total of 36 proposals have been received. The proposals are at different stages of consideration.⁵

³ In accordance with the “Procedure for accrediting operational entities by the Executive Board of the clean development mechanism” (version 03), this is a letter indicating that the CDM Accreditation Panel (CDM-AP) has concluded that an AE has satisfied the desk review and the on-site requirements.

⁴ In the order of the applications received: Japan Quality Assurance Organization (JQA); Det Norske Veritas Certification (DNV Cert); TÜV Süddeutschland Bau und Betrieb GmbH (TUV Sud); and Tohatsu Evaluation and Certification Organization (TECO).

⁵ Detailed information on each proposal is available on the UNFCCC CDM web site <http://cdm.unfccc.int/methodologies>

21. The Board, at its eleventh and twelfth meetings, agreed as follows:

(a) To approve, in addition to the two methodologies approved at its tenth meeting, the following seven proposals for methodologies for baselines and monitoring plans:⁶

- (i) “A.T. Biopower rice husk power project”
- (ii) “CERUPT methodology for landfill gas recovery”
- (iii) “Durban-landfill-gas-to-electricity project”
- (iv) “El Gallo Hydroelectric Project”
- (v) “Graneros Plant Fuel Switching Project”
- (vi) “Nova Gerar Landfill Gas to Energy project”
- (vii) “Vale do Rosario Bagasse Cogeneration (VRBC) project”.

(b) To amend the procedures for submission and consideration of a proposed new methodology (annex 3 of the report of the eleventh meeting of the Executive Board) in order to streamline the process.

D. Matters relating to the registration of CDM project activities

1. Mandate and background

22. No change.

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

23. In order to facilitate tasks relating to the registration of proposed CDM project activities, the Board has developed, since its tenth meeting, the following procedures and clarifications:⁷

- (a) Validation-related procedures and clarifications:
 - (i) Revision of the “Procedures on public availability of the CDM project design document (PDD) and for receiving comments as referred to in paragraph 40 (b) and (c) of the CDM modalities and procedures” (annex 5 of the report of the eleventh meeting of the Executive Board);
 - (ii) Additional clarifications on validation requirements (annex 6 of the report of the eleventh meeting of the Executive Board);

(b) Registration-related procedures: Revision of the “Procedures for the registration of a proposed CDM project activity” (annex 4 of the report of the eleventh meeting of the Executive Board).

24. The Board, at its twelfth meeting, considered implications of paragraphs 12 and 13 of decision 17/CP.7 and prepared a recommendation to the COP (see annex II to this addendum).

⁶ Note that the final titles and formats of methodologies will differ from those listed here. The final version of an approved methodology is made available on the UNFCCC CDM web site in the “Search” section at <http://unfccc.int/cdm>

⁷ 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>

E. CDM registry

1. Mandate and background

25. No change.

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

26. Having considered options prepared by the secretariat, taking into consideration 17 submissions in response to the call for public input on how to take this work forward, the Board, at its twelfth meeting, agreed that:

(a) The secretariat is to explore further the development of the CDM registry, including the possibility of adapting one of the registry software systems identified through the public call for input;

(b) 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 purposes of receiving certified emission reductions (CERs) forwarded to them from the pending account and for transferring such CERs to accounts in national registries;

(c) The Board will further consider the issue of whether non-Annex I Parties, and project participants from such Parties, may transfer CERs from their accounts in the CDM registry to accounts in national registries of Annex I Parties.

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

1. Mandate and background

27. No change.

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

28. The Board took note of progress reported by Board members who are designated to follow deliberations by the Subsidiary Body for Scientific and Technological Advice (SBSTA) on:

(a) Technical standards for registries;

(b) Definitions and modalities for including afforestation and reforestation project activities under the CDM in the first commitment period;

(c) Elements of a future work programme of the SBSTA on methodological issues.

IV. TRANSPARENCY AND ATTENDANCE

1. Mandate and background

29. No change.

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

30. **The UNFCCC CDM web site (<http://unfccc.int/cdm>):** The web site is continuously updated and modules are added as the implementation of the CDM advances.

31. The new features include:

(a) Repository of approved methodologies

(b) Publication of information on proposed methodologies

- (c) Links between approved methodologies and sectoral scopes for accreditation
- (d) Additional contact information for designated national authorities
- (e) Improved handling and maintenance of two rosters of experts (methodologies and accreditation)
- (f) An interactive interface to facilitate the implementation of the “Procedures on public availability of the CDM project design document (PDD) and for receiving comments as referred to in paragraph 40 (b) and (c) of the CDM modalities and procedures” allowing for AE/DOEs to submit information required under the procedure and for the automatic processing of such information.

32. **Printed material and CD-ROMs on the CDM:** No change.

33. **Engaging in dialogue with Parties, accredited observers, etc:** The Board has continued the activities and practices described in the report.

34. **Modalities for attendance by observers at meetings of the Executive Board:** The trend in distribution and average attendance has not changed. A total of 39 observers attended the eleventh and twelfth Board meetings.

V. COVERING ADMINISTRATIVE EXPENSES OF THE CDM

1. Mandate and background

35. No change.

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

36. **Operational costs and cost recovery:** During the reporting period covered by this addendum, the Executive Board, continued to monitor the operational costs of the CDM and incoming resources in 2002–2003, based on reports by the secretariat at each of its meetings.

37. **Resource requirements in 2002–2003:** The resource requirements for the prompt start operations of the CDM in 2002–2003, additional to provisions in the core budget, had been estimated to total US\$6.12 million (according to the project document circulated in May 2002 and including overhead charges and working capital reserve). As resources available in 2002–2003 were not sufficient for the tasks originally envisaged and/or not available in a timely manner, the activity level had to be adjusted to the available capacity. During the reporting period of this addendum, this resulted, inter alia, in the need for spacing out the consideration of proposed new methodologies for baselines and monitoring, and in delays in expanding the web site and in improving the trackability and user-friendliness of documentation.

38. **Incoming resources (in 2002 and 2003 to date), including commitments/contributions by Parties, fees and other:** During the reporting period covered by this addendum, in response to repeated calls by the Executive Board, resources additional to those referred to in the second annual report (Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Switzerland and the United Kingdom as well as the European Commission) were pledged/received from Canada, Germany, Italy, Netherlands and Sweden.

39. As at 28 November 2003, an amount of US\$ 3.18 million has been pledged by Parties (which includes an internal transfer of a closed project of US\$ 0.25 million). Recently, considerable contributions were received against pledges, bringing the total amount received to US\$ 2.7 million. During the reporting period covered by this addendum, four additional entities paid application fees for accreditation (with one entity from a developing country paying the stipulated reduced up-front amount

of 50 per cent). This brought the total amount of fees paid to US\$ 0.29 million. Total resources available to date in 2002-2003 therefore amount to US\$ 3.0 million.

40. The costs for the CDM prompt start in 2002–2003 covered from resources outside the core budget are currently estimated to total US\$ 1.55 million. Of the resources available in 2002–2003, US\$ 1.45 million could therefore be carried over to the period 2004–2005.

41. **Resource requirements in 2004–2005:** The Board, at its twelfth meeting, took note of the provisions for CDM related activities contained in the proposed programme budget 2004–2005 (FCCC/SBI/2003/15 and Add.1). At the same meeting, the Board considered in detail the level of activities expected in 2004 and the corresponding resource requirements to be met from resources outside the core budget, including from contributions from Parties and, subject to applications and requests for registration being made, from fees for accreditation and registration of CDM project activities. The above-mentioned carry-over would partially fund those operational activities in 2004 which are to be covered from resources outside the core budget, notably six meetings of the CDM Executive Board; four meetings each of the Accreditation and Methodologies Panels as well as related specialized expertise; support for work on the CDM registry, databases and listservs; and work in support of CDM operations by secretariat staff. The total resources required for these activities are estimated to be US\$ 3.0 million in 2004, including provisions for overhead and working capital reserve.

42. In order to allow the CDM to be operated in a planned and sustainable manner, and bearing in mind that fees will only become gradually available with their total level in 2004 not being predictable, the Board agreed to call on Parties to continue to make contributions in 2004 to the UNFCCC Trust Fund for Supplementary Activities.

43. In addition to the above-mentioned activities and resource requirements, the Board, at its twelfth meeting, requested the secretariat to convene, in the first half of 2004, a joint coordination event for the Board, members of the Accreditation and Methodologies Panels and members of the CDM assessment teams. This event is to ensure that work is undertaken in accordance with the CDM modalities and procedures and that rules are applied in a consistent manner. The Board invited a special contribution from Parties to finance this event, which is estimated to cost US\$ 100,000.

VI. SUMMARY OF DECISIONS

44. No change.

Annex I

Recommendation to the Conference of the Parties: proposal for amendments to rules 4 and 12 of the rules of procedures of the Executive Board

Background

1. In accordance with the rules of procedure of the Executive Board:

(a) “The term of service of a member, or an alternate member, shall start on 1 January of the calendar year following his/her election by the COP/MOP and shall end on 31 December, two or three years thereafter, as applicable.” (rule 4, paragraph 2)

(b) “At the first Executive Board meeting of each calendar year, the Board shall elect a Chair and a Vice-Chair from among its members.” (rule 12, paragraph 2)

2. The Executive Board recommends, in accordance with paragraph 5 (b) of the CDM modalities and procedures, that the COP consider, at its ninth session, the inclusion in its decision on guidance to the Executive Board, of the following preambular and operative paragraphs relating to an amendment to the rules of procedure of the Executive Board.

Recommended elements for inclusion in a decision of COP 9

The Conference of the Parties,

Bearing in mind the need to ensure continuity of work by the Executive Board, in particular with regard to the Chair and Vice-Chair being in office in the period between the election of new members and alternates and the first meeting of the Executive Board in a calendar year,

1. *Decides* to replace the text of rule 4, paragraph 2, with the following text: “The term of service of a member, or an alternate member, shall start at the first meeting of the Executive Board in the calendar year following his/her election and shall end immediately before the first meeting of the Executive Board in the calendar year in which the term ends”.

2. *Further decides* to add the following text after rule 12, paragraph 2: “The secretary of the Board shall preside over the opening of the first Executive Board meeting of a calendar year and conduct the election of the new Chair and Vice-Chair.”

Annex II

Recommendation to the Conference of the Parties: proposal for a clarification relating to paragraph 13 of decision 17/CP.7

Background

1. Paragraphs 12 and 13 of decision 17/CP.7 stipulate that:
 - (a) Certified emission reductions shall only be issued for a crediting period starting after the date of registration of a clean development mechanism project activity (paragraph 12);
 - (b) A project activity starting as of the year 2000, and prior to the adoption of this decision, shall be eligible for validation and registration as a clean development mechanism project activity if submitted for registration before 31 December 2005. If registered, the crediting period for such project activities may start prior to the date of its registration but not earlier than 1 January 2000 (paragraph 13).
2. The Executive Board, recalling that in accordance with paragraph 19 of decision 17/CP.7, the COP is to assess progress made regarding the clean development mechanism and to take appropriate action, as necessary, recommends that the COP consider the inclusion in its decision on guidance to the Executive Board of the following preambular and operative paragraphs.

Recommended elements for inclusion in a decision of COP 9

The Conference of the Parties,

Recognizing that paragraph 13 of decision 17/CP.7 has excluded the possibility for projects starting between the date of adoption of decision 17/CP.7 and the date of the first registration of a clean development mechanism project activity to be able to earn certified emission reductions for this period,

1. *Decides* that a clean development mechanism project activity starting between the date of adoption of decision 17/CP.7 and the date of the first registration of a clean development mechanism project activity, if submitted for registration before 31 December 2005, may use a crediting period starting prior to the date of its registration.
