CDM-EB88-AA-A12

Concept note

Applicability of a pro rata approach to issuance of tCERs and lCERs

Version 01.0

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1. Procedural background

1. This work relates to the activity “Project assessments” under objective 1(a): “Operate efficient project and entity assessment processes,” as referred to in table 2 on page 12 of the Management plan 2016 (EB 87, annex 1).

2. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), at CMP 8, requested the Executive Board of the clean development mechanism (CDM) (hereinafter referred to as the Board) to consider possible flexibility in the timing of verification of afforestation and reforestation (A/R) CDM project activities during a crediting period.

3. The Board, at its seventy-fifth meeting (EB 75), requested the secretariat to prepare a concept note on this issue, including consideration of whether the provisions relating to pro rata issuance of certified emission reductions (CERs) contained in paragraph 71 of the report of EB 62 can be applied to the issuance of temporary CERs (tCERs) and long-term CERs (lCERs) under A/R CDM project activities.

4. The Board, at EB 79, considered the concept note prepared by the secretariat and requested the secretariat to consult with the Afforestation and Reforestation Working Group (A/R WG) on the draft recommendation contained in the concept note.

5. The secretariat consulted with the A/R WG on the draft recommendations contained in the concept note. The recommendations were endorsed by the A/R WG, including the recommendation that the provisions relating to pro rata issuance of CERs contained in paragraph 71 of the report of EB 62 should not be applied to the issuance of tCERs and lCERs.

6. The Board, at EB 80, considered the draft recommendations as endorsed by the A/R WG and agreed not to include the specific provision relating to applicability of pro rata issuance to tCERs and lCERs in its recommendation to the CMP.

7. The secretariat, while assessing the issuance request of an A/R CDM project activity, noted that during the verification process the designated operational entity (DOE) had raised a corrective action request to the project participants to bifurcate the net anthropogenic greenhouse gas removals achieved during the monitoring period into two parts corresponding to the first and the second commitment periods of the Kyoto Protocol. The DOE had raised this corrective action to ensure compliance with the provisions contained in paragraph 71 of the report of EB 62 (also incorporated as a requirement in the CDM project standard, paragraph 254).

8. Although the above issuance on a pro rata basis has already occurred,[1] the secretariat would like to draw the attention of the Board to this issue and advise that the Board consider this matter and agree on a policy decision in this regard so that future issuances can be made accordingly. In view of the secretariat, the provisions of pro rata issuance of CERs contained in paragraph 71 of the report of EB 62 should not be applied to issuance of tCERS and lCERs.

[1] As no request for review was received from a Party involved or at least three members of the Board, in accordance with the modalities described in the CDM project cycle procedure, the requested quantity of tCERs was issued into the pending account of the Board in the CDM registry.

9. This concept note follows the analysis and the recommendation contained in the earlier concept note considered by the Board at EB 79 and EB 80, insofar as applicability of pro rata approach to issuance of tCERS and lCERs is concerned.

2. Purpose

10. The purpose of this concept note is to support informed decision-making by the Board on the issue of applicability of the provisions related to pro rata issuance of CERs to issuance of tCERs and lCERs

3. Key issues and proposed solutions

3.1. Issuance of tCERs and lCERs

11. The A/R CDM modalities and procedures, Section J., "Issuance of tCERs and lCERs," provide as follows:

"36. The certification report shall constitute:

(a) Where project participants have chosen the tCER approach to account for nonpermanence, a request to the Executive Board for issuance of tCERs equal to the verified amount of net anthropogenic greenhouse gas removals by sinks achieved by the afforestation or reforestation project activity under the CDM since the start of the project activity;

(b) Where project participants have chosen the lCER approach to account for non-permanence and:

(i) Net anthropogenic greenhouse gas removals by sinks have increased since the previous certification report, a request to the Executive Board for issuance of lCERs equal to the verified amount of net anthropogenic greenhouse gas removals by sinks achieved by the afforestation or reforestation project activity under the CDM since the previous certification;

(ii) Net anthropogenic greenhouse gas removals by sinks have decreased since the previous certification report, a notification to the Executive Board of the reversal of net anthropogenic greenhouse gas removals by sinks that has occurred at the afforestation or reforestation project activity under the CDM since the previous certification."

12. From the above it is seen that tCERs are to be issued "equal to the verified amount" of removals achieved "since the start of the project activity," and lCERs are to be issued "equal to the verified amount" of removals achieved "since the previous certification." Thus the issuance of tCERs and lCERs is based only upon on the difference in the carbon stocks within the project boundary at two points of time: the time of project start and the time of verification/certification[2] in the case of tCERs; and the time of two consecutive verifications/certifications in the case of lCERs.

13. It is clear that the increases and decreases in the carbon stocks (which would correspond to removals and emissions, respectively) that might have occurred during an

[2] For the purpose of this analysis, the difference between verification and certification is not material.

intervening period are not relevant for the purpose of issuance of tCERs and lCERs. For example, it is possible that during the period between the start of a project activity and the time of verification removals occurred in the first half and emissions occurred in the second half (e.g. as a result of harvest). It is also possible that carbon stocks grew monotonously during this period of time (e.g. in a conservation project), or that the carbon stocks changed following periodic increase-decrease cycles (e.g. in a project activity subject to periodic harvests).

14. The intent of the modalities and procedures is that the distribution of removals and emissions over time is not to be taken as the basis for issuing tCERs and lCERs. The equations for estimating tCERs/lCERs in the approved A/R methodologies are consistent with this intent. The word “net” in the term “net anthropogenic greenhouse gas removals by sinks” implies that only the net effect across two points in time is to be taken into consideration. In other words, the relevant question at the time of a particular verification/certification is, “How many tonnes of carbon stocks are present in the project boundary?” and not, “When were these carbon stocks sequestered?”

3.2. Applicability of pro rata approach

15. Since issuance of tCERs and lCERs is based only upon the net removals achieved between two points in time, and not on “when the removals were achieved”, the pro rata approach of splitting the issuance of tCERs and lCERs across the boundary of two commitment periods does not appear to have any relevance.

16. On the contrary, application of the pro rata approach to issuance of tCERs and lCERs could result in serious adverse implications as described below.

3.3. Implications of applying pro rata approach to tCERs and lCERs

17. Application of the pro rata approach to tCERs and lCERs could result in issuance of unusable and/or expired credits. This is explained through the following examples:

Example 1

The project participants of an A/R CDM project activity starting in 2009 request issuance of tCERs in 2024 (assuming a third commitment period, and assuming that this is their third issuance request). If the pro rata approach is applied, the removals achieved from 2009 to 2012 will be issued as tCERs for the first commitment period (CP1). These tCERs will have already expired at the time of issuance, since tCERs expire “at the end of the commitment period subsequent to the one for which these are issued.”[3] A second portion of tCERs will be issued for the second commitment period (CP2) and these will be unusable, for the purpose of compliance, at the time of issuance since tCERs can only be used by an Annex I Party “towards meeting its commitment for the commitment period for which they were issued.”[4]

Example 2

The carbon stocks under a project activity starting in 2003 become stabilized at the end of 2012, and the project activity gets tCERs issued in December 2012. As a

[3] Decision 5/CMP.1, annex, paragraph 42.

[4] Decision 5/CMP.1, annex, paragraph 41.

result of carbon stock saturation, no further removals are achieved by the project activity during CP2. The project participants apply for issuance of tCERs in 2019. If the issuance is based on “when the removals were achieved” criterion, the project participants will be issued the same amount of tCERs as were issued in December 2012, but these tCERs will be issued for CP1 (because removals occurred during CP1). Such tCERs will be unusable, for the purpose of compliance, at the time of issuance since tCERs can only be used by an Annex I Party “towards meeting its commitment for the commitment period for which they were issued.” The intent of the modalities and procedures, on the other hand, is that the project participants be issued tCERs, corresponding to the in-situ carbon stocks verified in 2019, for CP2.

18. A similar example of applying pro rata issuance to lCERs will show that this approach will consistently result in issuance of lCERs that would be unusable, for the purpose of compliance, at the time of issuance since lCERs can only be used by an Annex I Party “towards meeting its commitment for the commitment period for which they were issued.“[5]

19. In view of the above analysis, it becomes clear that the pro rata approach of issuance should not be applied to issuance of tCERs and lCERs.

4. Impacts

20. The risk of issuance of tCERs and lCERs that are expired and/or unusable for the purpose of compliance will be avoided if a decision is taken not to apply the pro rata approach of issuance to issuance of tCERs and lCERs.

21. A clear policy decision by the Board on the applicability of the pro rata issuance approach to issuance of tCERs and lCERs will help project participants to plan their monitoring activities, in view of the flexibility in timing of verification of project activities as provided in decision 4/CMP.10, annex II.

5. Subsequent work and timelines

22. No further work is foreseen in this regard.

6. Recommendations to the Board

23. The secretariat recommends that the Board adopt a decision not to apply the pro rata issuance approach to the issuance of tCERs and lCERs.

24. The Board may wish to take any other decision, including providing guidance to the secretariat for further work on this issue, or seeking guidance from the CMP.

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[5] Decision 5/CMP.1, annex, paragraph 45.

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