

## **SUBMISSION BY GREECE AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES**

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

Athens, 20 May 2014

### **Subject: Review of the modalities and procedures for the clean development mechanism (SBI)**

#### **Views from Parties and admitted observer organizations on suggested changes to the modalities and procedures for the clean development mechanism, taking into account the implications elaborated in the technical paper referred to in paragraph 1 of FCCC/KP/CMP/L.8.**

1. The EU welcomes the technical paper by the secretariat and the opportunity to submit views on changes to the modalities and procedures for the clean development mechanism. Nonetheless we emphasise that the matters addressed by this paper represent only part of what we believe is necessary for the CDM to have a long term future.
2. The EU considers that a broad review, including significant reform of the CDM, is needed if it is to be considered an appropriate instrument for the future. While the shape of the 2015 agreement and the role of market remains to be decided, we believe that to remain even relevant, the CDM needs to address a context in which all parties are expected to contribute to mitigation, and this context needs to be reflected upon in this review.
3. The CDM has made a major contribution to the development of an international carbon market, driven in substantial part by the EU's commitment to use the CDM as an offsetting mechanism. Nevertheless we have made clear that the market cannot develop further on the basis of offsetting alone and needs therefore to incorporate alternative approaches. It is also plain that the CDM has not worked for every party, and efforts to reform the mechanism have not adequately addressed the different capacities and circumstances of participants.
4. We have for a long time
  - made a range of proposals which address the need for a more transparent and standardised set of approaches to set crediting thresholds tailored to national circumstances through our proposal on standardised baselines,
  - indicated our concerns that national policy is adequately expressed in baseline and additionality assessments,
  - and underlined the need for the CDM to expressly enable parties to incorporate net mitigation.

For those reasons, we reiterate our request for further technical work on the question of net mitigation, and the need to discuss a full range of approaches that might allow parties to make such contributions, as well as protecting their contributions from the potential for double counting.

5. Together with this request, we also present in this submission EU's views on some specific aspects.

#### **Stability of principles and flexibility of details**

6. The new CDM M&P should contain principles and approaches while the CDM Executive Board should elaborate rules that can evolve and be adjusted over time as contexts change.

#### **Enabling net-mitigation and sharing of mitigation outcomes**

7. In order to ensure that the CDM continues to be a useful tool for international climate change cooperation, the CDM M&P need to have provisions for net mitigation through the CDM. The High-Level Panel on the CDM Policy Dialogue recommended that approaches to achieve a net mitigation impact, on both buyer and seller sides, be developed and tested under the CDM.
8. The EU is of the view that a transparent contribution to a net decrease and/or avoidance of greenhouse gas emissions will be necessary in the future to achieve our shared two degree objective and that the CDM can be a useful tool in this context. The CDM M&P should therefore have provisions for transparent, quantifiable, contributions to net-mitigation, not just beyond binding pre-2020 commitments ("beyond offsetting of A1 commitments") but also beyond voluntary pre-2020 pledges and also potentially beyond post-2020 contributions, where appropriate, depending the nature of the contribution.
9. There are several ways the CDM could contribute to net-mitigation in a transparent and quantifiable manner which is clearly attributable and not double-counted. The level of net-mitigation can be differentiated by a range of factors. For instance, the EU does not foresee net-mitigation being applicable to CDM projects or programmes in LDCs. Nonetheless, the provision for net-mitigation through the CDM would be crucial for the future of the clean development mechanism. Hence, provisions enabling net-mitigation need to be included in the revised M&P. Detailed rules for application would likely only be developed subsequently.

#### **Membership and composition of the Executive Board of the Clean Development Mechanism**

10. Members of the CDM Executive Board need to have the appropriate skills, qualifications and competencies to fulfil their duties and should be selected in a transparent process with the qualifications of the candidates made public. Residence time in the Executive Board should be limited to 3 terms of 2 years, or a total of 6 years, for any person.

**Liability of designated operational entities to compensate for the issuance of certified emission reductions resulting from significant deficiencies in validation, verification and certification reports**

11. The Executive Board has developed and implemented various standards and procedures, such as the CDM accreditation standard, the CDM validation and verification standard, the CDM accreditation procedure (in particular, regular on-site surveillances, performance assessments and spot-checks) and the DOE performance monitoring procedure. The CMP has adopted a decision in relation to the materiality standard under the CDM in relation to verification which could be extended to validations. At CMP 8, a draft procedure was presented which defines a structured approach to assess reports of a DOE whose designation has been withdrawn. This procedure would limit the risks in terms of time and volume of potential excess and provides the DOE under suspicion with a due process including the right to be heard and independent assessment. Together with the elements mentioned above, this procedure could form a solid basis for an adequate risk management of the DOE while safeguarding the environmental integrity of the CDM.

**Provisions for programmes of activities**

12. Acknowledging that there is a difference between project-by-project CDM and Programme of Activities (PoA), a separate section for PoA in the M&P is needed. A special feature of the PoAs is its gradual expansion over a long time horizon, the new section in the M&P should contain definitions and principles in relation to what needs to be known and done when, in the case of PoAs. The decisions taken by the EB over the years, and the detailed rules, should not be moved into the M&P. The PoA section would also establish PoA methodologies for baseline and additionality determination and monitoring which go beyond project-based methodologies.

**Length of the crediting period**

13. In general, the length of the crediting period needs to strike a balance between the need for investor certainty and the need to reflect technological improvements in the baseline. In this light, the EU is of the view that the length of crediting periods should be reviewed on the basis of experience to date.
14. The length of the crediting period should in general be either 7 or 10 years, and any deviation from this should be determined in the respective methodology.
15. When reviewing the crediting period, the additionality of emission reductions and the effect of initiating structural changes should be taken into account. Any emission reduction beyond the end of the crediting period counts towards the host party's inventory.
16. In the case of PoAs, the PoA lifetime is 28 years and crediting periods apply at CPA level. These special features should be taken into account when reassessing lifetime and crediting period length for PoAs.

### **Requirements for the demonstration of additionality**

17. The M&P should include provisions for the proposal and use of standardized approaches and parameters for baseline determination and/or additionality assessment as well as for the use of “positive lists” for project types that can be deemed additional with high probability.
18. The initiation of country-specific standardised baselines by Parties through their DNA, as well as development of generally applicable standardized baselines by the Executive Board, should be enabled.
19. The M&P should clearly state that standardized baselines, once approved for a country, need to be applied by all new CDM project activities which fall under the scope of that standardized baseline<sup>1</sup>;
20. All applicable national climate policies and specific national circumstances should be included when establishing baselines.

### **Further elaboration of the role of designated national authorities**

21. A new section in the M&P should be included on the role of DNAs, this section should introduce a requirement that DNAs make publicly available and maintain up-to-date information relating to process and criteria for approval/authorization of project activities and PoAs and for participation of public/private entities; criteria used by the DNA to assess the contribution of a project activity or PoA to sustainable development; the relevant laws, regulations and guidelines that apply to the national approval processes, including elements such as the applicable rules relating to environmental impact assessment and local stakeholder consultation.
22. The DNA should make public how the use of the CDM in the country contributes to the development of Low Emission Development Strateg(y) (ies) or similar policies and how the CDM activity benefits are shared between investor and host country.
23. The M&P should contain requirements for local as well as global consultation procedures, including minimum criteria for scope, timing and form. Local stakeholders should have the right to comment on the published monitoring report before the submission to the CDM Executive Board.

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<sup>1</sup> Para 47 of 3/CMP.6 (Decision on standardized baselines) states that the application of the standardized baselines shall be at the discretion of the host country. However, para 44 of the same decision defines that standardized baselines should provide assistance for assuring environmental integrity. The latter requirement can only be fulfilled, if standardized baselines are applied by all new project activities under the scope of the standardized baseline. Otherwise only project activities whose project baseline would be lower than the standardized baseline would opt for the standardized baseline while all project activities whose project baseline would be higher than the standardized baseline would opt for the project baseline. The aggregated amount of CER issued would thus be higher if project activities could voluntarily opt for the standardized baseline than under the situation where all projects would apply their project baseline. Environmental integrity can thus only be assured if all new project activities use the standardized baseline.

24. The M&P should specify which information, as a minimum, has to be included in a Letter of Approval; including start date and end dates for validity, as applicable and clear conditions for withdrawal, if any.

**Simplification and streamlining of the project cycle of certain project categories**

25. Currently, no distinction is made between a CDM project activity or CPA that comprises numerous small units and collectively reaches the threshold and a project activity or CPA that comprises a single facility that alone reaches the threshold. In the case of PoAs, application of micro- and small-scale thresholds at the aggregate level of the CPA may restricts optimised aggregation of units into CPAs without adding value in terms of environmental integrity. As a general principle, which should be included in the M&P, thresholds should be applied at the relevant level in order to ensure consistent and equal treatment for all CDM project activities or CPAs facing similar barriers.
26. Regarding simplification of the assessment of land eligibility of project land, the Technical Paper proposes to remove the requirement for delineation of individual land parcels of the project area. Delineation of boundaries of land parcels is a necessarily pre-requisite to define the project area and its unique geographical localization. The definition of project boundaries is essential not only for the definition of land eligibility but also for baseline setting, additionality test, ex-ante estimation of actual net greenhouse gas removals by sinks and its monitoring, thus crucial for project validation, verification and consequently certification and issuance of tCER/ICERs. Simplified methodologies for land eligibility assessment could be considered, without necessarily removing the requisite of definition of project boundaries.
27. In current A/R CDM modalities and procedures, A/R CDM project activities shall undergo periodic verifications and certifications every five years, starting from the first verification. There are possible changes proposed in technical paper regarding periodicity of verifications and certifications for A/R CDM project activities that the EU would be open to consider.