



# IETA

INTERNATIONAL EMISSIONS  
TRADING ASSOCIATION

## **The State of the CDM 2010:** *Focusing on Efficiency*



## ***The State of the CDM 2010: Focusing on Efficiency***

### **Introduction**

*The State of the CDM Report 2009* concentrated on identifying the CDM's most chronic challenges and putting forward solutions to address them. The *2010 Report* maintains that focus because, while great changes have taken place this year, great challenges remain. With clear CMP guidance, IETA believes the remaining issues can be addressed in 2011.

In our attempt to make this document increasingly accessible to negotiators, this year's version aims to be more concise and even more focused on the core issues holding back the CDM. In the main document, we focus our comments on those challenges that most affect the efficiency of the CDM— issues including the absence of materiality; the barriers to taking difficult policy decisions; and the long delays for registration and issuance. For even faster reading, the Annex consolidates and provides explanations for all of IETA's recommendations.

Last year's *Report* focused on the following 5 enduring problems: unrelenting time constraints, ineffective communication practices, lack of transparency, slow policy development and inadequate resolution of issues, and inadequate number and expertise of Secretariat staff. Both the Report and its annex highlight where those problems remain, if they have been addressed, and how they can be improved further in ways that will enhance the efficiency of the CDM.

**Despite the remaining challenges, IETA applauds the hard work of the EB and the Secretariat over the past year.** Faced with a mammoth backlog and daunting policy workload, they have persevered to implement some very significant changes to the Secretariat structure and to the registration, issuance, and review procedures, among others. While the jury is still out as to whether the reforms will be ultimately successful, there is no question that CDM stakeholders recognize the EB and Secretariat's devotion to improving the CDM.

**One area in which neither the Secretariat nor the EB can help us, however, is the issue of the future of the CDM.** Prior to Copenhagen, hopes were high that an international agreement would be reached, trust renewed in the UNFCCC system, and wide-ranging CDM reforms agreed. The Copenhagen Accord was praised by some and criticized by others, but what it definitely did not do was address any of the longer-term issues regarding the CDM or new flexible mechanisms. Worse yet, a recently released note by the UNFCCC Secretariat on legal considerations relating to a possible gap between commitment periods of the Kyoto Protocol has led to increased uncertainty regarding the continuation of the CDM and the security of CDM investments. Only the CMP can resolve this issue, as the interpretation of the Kyoto Protocol remains their purview. IETA urges them to do so in Cancun.

**IETA's 160+ member companies believe that this document and its annex of recommended 'further guidance relating to the Clean Development Mechanism' should serve as a guide to negotiators as the Cancun talks begin.** CDM reform still matters greatly to those working within and committed to the long-term success of the mechanism. As in all previous editions, this *Report* provides proposals for reform that will ensure continued private sector interest in this successful environmental mechanism.

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**Efficiency is a relative assessment rather than a black-and-white judgment.** Even so, IETA can identify a number of aspects of the CDM system that continued to result in significant inefficiencies in 2010.

- Continuing delays
- Inadequate communication with stakeholders
- Slow, opaque and inadequate decision-making procedures
- Failure to incorporate standardization into the CDM, including materiality

The remainder of this document addresses each of these issues in turn.

## Continuing Delays

### Explanation

As we noted in last year’s *Report*, IETA has repeatedly highlighted the struggle of the CDM EB, Panels, Working Groups, and Secretariat to successfully manage their workload, to address key issues expeditiously and comprehensively, and to anticipate future developments and prepare for them in advance. Extensive and costly delays in registration and issuance and slow decision-making on important policy issues have been the norm, not the exception.

This year, the EB and Secretariat have developed and implemented new registration, issuance, and review procedures, partly as a result of last year’s guidance from the CMP. As the procedures have only been implemented over the past few months, they have not been in place long enough for IETA to make a definitive judgment on their impact on efficiency. Even so, IETA commends the massive effort it has taken to reform the procedures and, despite some ongoing challenges, has been heartened to see such a significant reform take shape.

Similarly, IETA has watched with intense interest over the past year as the EB, having taken onboard a previous suggestion from IETA, decided to restructure the Secretariat. The new structure splits the policy team into three units: Standard Setting Unit, Project and Entity Assessment Unit, and Process Management Unit, with three other units supporting them, including a Stakeholder Development Unit. The new structure is intended to group staff in terms of logical ‘functions’ and ensure that the staff members working within each function area are interchangeable in times of fluctuating need. IETA strongly supports these efforts as well as the efforts to prioritize and add flexibility into the search to fill vacancies within the Secretariat. Among other changes, the Secretariat has begun to use ‘framework contracts’ to take advantage of external resources and outsource activities when possible. IETA believes that the infusion of such dynamism to the CDM’s management process is a sign of real progress.

As this Report was drafted, these changes seemed to be having a positive effect. Quite drastic reductions in processing time for registration and issuance completeness checks have materialized recently. The table below shows the improvements in processing time for completeness checks of registration and issuance over the past five weeks.

Table 1: Average Completeness Check Output for Registration and Issuance

<b>Registration</b>	
9/10/10-12/11/10 (previous 6wks)	23 files/week
9/10/10-12/11/10 (most recent)	45.6 files/week
<b>Issuance</b>	
9/10/10-12/11/10 (previous 6wks)	21 files/week
9/10/10-12/11/10 (most recent)	31.4 files/week

Despite these welcome changes, negotiators should be fully aware that the current situation with regard



to registration and issuance continues to warrant close surveillance. The Secretariat remains widely out of compliance with the CDM Modalities and Procedures' original timelines for registration and issuance requests. According to the Secretariat's own analysis of compliance with indicative timelines, a request for registration processed under the new procedures faced an average 'waiting time' of 87 days, and a request for issuance faced an average waiting time of 98 days. This waiting time sits outside of the official indicative timelines, which then allow for a 7-day completeness check, 23-day information & reporting check, and 28-day request for registration or issuance period. Annex 3 to the agenda for EB 58 stated that the Secretariat is planning to reduce the waiting time to less than 30 days by the end of 2010 for Registration and by the end of January 2011 for Issuance. IETA believes that adding an additional delay of 30 days to each submission is unacceptable and that such a waiting time should not exceed 7 days, if waiting time is necessary at all.

Further, one particular aspect of the new procedures has already proven to increase rather than decrease delays. As a part of the new procedure, the Secretariat has been sending submissions found to have errors to the back of the queue for scheduling for completeness check. In other words, they begin 'waiting' all over again. IETA understands the need to incentivize project participants to submit high quality submissions in order to reduce the time spent evaluating and correcting them. That being said, the procedure implemented today has serious problems. First, it may make sense to apply such a penalty if the Secretariat itself is on-schedule, but it is unreasonable to add an additional two to three months waiting time for projects already delayed far beyond the existing timelines. In such cases, the project developers have waited much longer than necessary and should not be penalized further. Moreover, many of the issues for which projects are returned during the completeness check are minor, immaterial issues that could be corrected in a matter of minutes. In others, they constitute an application of rules that were made only after the project had been submitted, and so are being applied retroactively. Finally, some simply demonstrate a lack of understanding of technical issues by the Secretariat reviewer. The table below provides examples of recent messages received by IETA members.

Table 2: Incompleteness Messages and Explanation

Incompleteness message	Problem with this message
<i>Spreadsheet is protected. Submit without protection.</i>	Minor issue. Secretariat could simply request password in a short phone call or email.
<i>The date on page 1 of the verification report is not in English.</i>	Simple typo. Dates may be written 50 times in a document. Mistakes will happen.
<i>The methodology is identified as AM0032 in the certification statement while the applied methodology for the project is AM0034.</i>	Simple typo. It is obvious from the PDD that the correct methodology is AM0034.
<i>Further explain how the input value of investment cost in the investment analysis is suitable, as the actual contracts for turbine and construction, as the main part of the investment, contribute only 75% of total estimated investment cost."</i>	Demonstrates lack of understanding by the Secretariat, not a lack of information.
<i>Spreadsheet only contains the EF (emission factor) calculation, not ERs [emission reductions].</i>	This is not a requirement.
<i>Substantiate input values.</i>	Retroactive application of a new rule.

The examples listed above have been typical since the new procedures have been implemented. PDDs are more than a hundred pages long in many cases and go through multiple revisions by different staff members, many of whom are often non-native English speakers. Even though they are proofread several times before submission, small mistakes will remain. It is simply unreasonable to expect a PDD to be perfect.

Moreover, rather than improving the efficiency of the registration and issuance processes, this practice has led to increased delays, as the Secretariat must re-check the entire project documentation when it



comes up again. Approximately one-fifth of all projects undergoing completeness check each month are re-submissions.

## Recommendations

While IETA remains hopeful that recent improvements will continue and timelines will soon be met, the historically slow pace of change within the CDM cautions against assuming this will be the case. To put it simply, CDM stakeholders cannot afford to wait another year before additional guidance is provided by the CMP regarding bringing registration and issuance processes into compliance with established timelines. It is key that the CMP renew and intensify the signal to the EB and Secretariat that these massive delays are unacceptable and give hope to CDM stakeholders that their valid concerns will be addressed.

For this reason, IETA recommends that the CMP make a number of requests of the EB and Secretariat regarding the new registration and issuance procedures and current delays in the registration and issuance processes, including but not limited to the following:

- *Requests* the Executive Board, together with its support structure, to develop and implement a strategy to bring each of its procedures into compliance with its established timelines by 1 April 2011, with a maximum 7-day wait period before beginning completeness check.
- *Requests* the Executive Board, from 1 April 2011, to refund the registration fee of all project submissions for which the timelines for the processing of requests for registration and issuance are breached by more than 4 weeks in total.
- *Clarifies* that the goal of the revised registration, issuance, and review procedures should be to increase the efficiency, predictability, and procedural due process of the CDM.
- *Further clarifies* that 'alternative timelines' should result in shorter, more efficient registration, issuance and review processes.
- *Requests* the Executive Board to revise its procedures for registration and issuance to provide for minor issues in completeness checks to be dealt with through direct telephone and/or email communication between the Secretariat and DOE/Project Participant and not result in the recommencement of the completeness check process, including waiting period.

## Ineffective Communication with Stakeholders

### Explanation

Effective communication can provide a great boon in terms of efficiency, which is why IETA has suggested that the EB implement more flexible and direct communication practices for several years. Last year, the CMP partially answered our call and requested that the EB enhance communications with project participants and stakeholders, including through the establishment of modes of direct communication between the EB and project participants in relation to individual projects.

To their credit, the EB and Secretariat have taken some steps to improve communication practices this year. The Secretariat organized two CDM Roundtable meetings for stakeholders to meet with some EB members and the Secretariat to discuss concerns and possible solutions. IETA also appreciates the creation of the new Stakeholder Development Unit within the Secretariat, the establishment of which sent a positive signal to CDM stakeholders.

Despite these efforts, however, the EB and Secretariat have not implemented the changes in stakeholder communication that are required to significantly increase the efficiency of the CDM. Most notably, the direct mode of communication requested by the CMP has not been created. A short discussion on the



issue took place at EB 58 but no concrete plans for implementation have been put forward. Indeed, IETA believes that project participants need not one but several opportunities to directly communicate with the EB and/or Secretariat, regarding completeness checks, reviews, and clarification questions, among others. IETA remains convinced that time would be saved if simple email and telephone communication were used frequently, and for clearly established purposes.

Similarly, though the Secretariat has expressed the intention to improve timelines for answering unsolicited correspondence— stakeholder's only direct form of communication to the EB— IETA has not witnessed a noticeable reduction in the time it takes to receive a response after a letter is sent. Indeed, in IETA's view the process of writing and receiving responses to unsolicited letters remains ceremonial, with responses carrying little if any utility for stakeholders. Most issues upon which IETA writes, for example, are time sensitive. In most cases, by the time the EB "responds" to them, a decision has already been taken or the item pushed from the agenda entirely. A more productive system for considering and responding to unsolicited stakeholder correspondence is needed.

## **Recommendations**

As noted above, IETA believes that the EB should greatly expand the communication avenues for CDM stakeholders. We suggest that the CMP request the following of the EB:

- *Requests* the Executive Board to enhance communications with project participants and stakeholders, including through the establishment of modalities and procedures for direct communication between the Executive Board and project participants in relation to individual projects at all stages of the project cycle, as requested in para 8 of FCCC/KP/CMP/2009/21/Add.1.
- *Requests* the Executive Board to develop and implement, as soon as possible, a formal procedure for considering unsolicited stakeholder correspondence, including timelines and an option to direct letters to specific panels, working groups, or teams in the Secretariat, in addition to the Executive Board.
- *Requests* the Executive Board to develop and implement an email interface and telephone hotline for CDM project participants, DOEs, and DNAs to ask simple clarification questions for clearly established purposes.

## **Slow, opaque, and inadequate decision-making procedures**

### **Explanation**

Over the past year, one of the greatest frustrations of CDM project participants has been the slow, opaque, and inadequate decision-making procedures of the EB. The speed with which decisions are taken, if at all, and the final decisions taken consistently fail to meet expectations.

It remains the case that when issues are discussed, they are often inadequately or only partially resolved. The concerns about Chinese wind and hydro electricity projects and the ensuing discussion on treatment of emissions reducing policies, reviewed extensively in last year's *Report*, continued throughout most of 2010. At its 55<sup>th</sup> meeting, the EB suddenly discontinued its discussion of its guidance on the treatment of national policies, without issuing the clarification or guidance requested by CMP 5. The fact that almost all of the discussions on the issue were undertaken in closed session meant that CDM stakeholders could not determine, let alone assist the EB with the issues that prevented them from taking action. Such opaque decision-making processes are incredibly inefficient because they prevent the CDM's largest, most experienced resource— project participants— from participating in the process of finding a solution to a complex problem.



Regardless of the cause, however, this is only one illustration of the EB's recent challenges in agreeing upon and issuing clear guidance on critical policy issues, which is required to meet the objectives of the CDM and therefore should be the EB's primary objective. Instead of tackling difficult policy issues and providing necessary guidance, the EB continues to reject projects and issue a very large number of requests for reviews (RfRs). Proceeding by means of case-by-case RfRs and rejections when clarifying guidance is obviously needed is clearly inefficient; it leads to unnecessary delays and added costs for all projects of that type, results in uncertainty for investors, and creates a large amount of additional work for the time-constrained Secretariat.

IETA has noted similarly frustrating policy discussions around issues such as, DOE liability for erroneous inclusion of CPAs in PoAs; DOE liability for excess issuance; the incorporation of the concepts of materiality and level of assurance; and the definitions of 'first-of-its-kind' and 'common practice'. IETA believes that clear guidance is crucial to the assurance of due process, procedural fairness, predictability and transparency in the CDM, and the CDM's slow, opaque and inadequate decision-making procedures will only increasingly hamper the CDM's future development.

## **Recommendations**

Whether the challenges the EB faces in coming to clear guidance stems from disagreements among EB members, or difficulties gathering the information needed to make an informed decision on these policy issues, IETA believes strongly that the EB needs revised decision-making procedures to deal with these challenges. For this reason, IETA suggests that the CMP request the following of the EB:

- *Requests* the Executive Board to continue to enhance its policy-making role by developing and implementing new procedures for decision-making, including voting procedures, to be implemented when considering contentious policy issues.
- *Requests* the Executive Board to revise its internal procedures to ensure that discussions related to issues that are not project-specific, and pertain to policy issues with the possibility of widespread impact, are held in open session.
- *Requests* the Executive Board, as its highest priority, to revise and clarify the treatment of national policies, including but not limited to feed-in tariffs for renewable energy, with respect to the establishment of additionality and the baseline scenario.
- *Requests* the Executive Board to closely consult with all CDM stakeholders when revising and clarifying its guidance on the treatment of national policies, including involving DNAs and project participants in any workshops or extraordinary meetings that may be organized.
- *Requests* the Executive Board to revise its "Procedures for erroneous inclusion of a CPA" to limit the liability of DOEs for the wrongful inclusion of CPAs by restricting the ability to review individual CPA inclusion to 2 years after initial inclusion.
- *Requests* the Executive Board to finalize, as a high priority, the guidelines on the definition of eligibility criteria for CPA inclusion in a PoA; to clearly define in those guidelines the precise scope of scrutiny required by the DOEs when assessing adherence to eligibility criteria; and to request the input of stakeholders before approval of these guidelines.

## **Failure to incorporate standardization into the CDM, including materiality**

### **Explanation**

Standardization within the CDM could, and should, come in many forms, including the standardization of important terms like 'first-of-its-kind' and 'common practice', the addition of simplified modalities for



demonstrating additionality, and the integration of methodology standards such as standardized baselines. The incorporation of the concepts of 'materiality' and 'level of assurance' would be another form of standardization, one which all major auditing systems recognize but which remains absent from the CDM. IETA has been commenting on the need to incorporate materiality and other types of standardization into the CDM for over four years now, both to improve the efficiency of the CDM as a whole and to make the CDM more accessible to currently under-represented host countries and sector. We maintain that greater levels of standardization would make for a stronger CDM in terms of efficiency, environmental integrity, and private sector interest.

After two requests from the CMP, the EB finally considered a draft standard regarding the use of the concept of materiality in the CDM at EB 56. While IETA recognizes that the discussion of this draft was a huge step forward given the slow progress to date, it was clear from the discussion that took place among EB members that the issue is far from resolved. Several EB members, unfamiliar with auditing techniques, remain unsure about how the concept can be applied within the CDM and the implications it will have for validations, verifications, and Secretariat assessments. Confusion is understandable. The issue is very complex and, at times, counterintuitive, but we must move forward. The current situation has reinforced IETA's view that since materiality is a technical issue, it would best be addressed by technical experts within the Secretariat as well as by relevant Panels and external technical experts, as required. Given agreement among these technical experts, the EB should provide only high-level approval.

As IETA has explained before, materiality and level of assurance are already applied by DOEs today in many cases; it is simply impossible for them to check all pieces of data, especially during verification. In order to ensure uniform assessments, however, the Validation and Verification Manual (VVM) should contain a common understanding of when and how the concept of materiality should be applied by DOEs. The Secretariat's assessment of submissions should then reflect that understanding. IETA believes that the Secretariat and the DOEs should jointly develop the new rules and present them to the EB for high-level approval, rather than approaching the EB for approval every step along the way. The standardization of materiality and level of assurance in the CDM is already long overdue.

Despite IETA's frustration with the delays on the incorporation of materiality, we recognize that the EB and Secretariat have taken some steps toward standardization this year. Following a CMP 5 request, the EB moved with uncharacteristic swiftness to establish simplified modalities for demonstrating additionality for very small-scale renewable energy and energy efficiency project activities. IETA believes that we should not wait for the benefits of these new procedures to trickle in, but rather move quickly to expand the project types for which simplified modalities are made available, building upon lessons learned to date.

The EB should also move quickly to finalize a decision on the validation and EB approval of grid emission factors for general usage. The establishment of national and regional grid-emission factors (GEF) is a key step in the facilitation of CDM project activities in a host country as it streamlines the process of baseline and additionality determination and reduces costs for many projects. The CDM still lacks clear guidelines for the validation and general approval of these grid-emission factors, however, and the EB now seems to be in a deadlock as to how to proceed. Current procedures still require each DOE to re-validate the GEF unnecessarily. This requirement adds unnecessary and, at times, unbearable cost to project participants, yet some members of the EB are unwilling to recognize this as a problem and even claim that DOEs should simply accept the GEF as calculated by the DNA, even though this is clearly not allowed under current CDM rules.

Finally, IETA also believes that the EB should move quickly to standardize the methodology development process. CMP 5 asked SBSTA to investigate the possibilities of developing standardized baselines under the CDM. As we have explained for some time now, however, IETA believes that there are several viable approaches for standardizing the process of determining additionality and baseline scenario, including deemed savings approaches, for example. IETA believes it would be appropriate to categorize different approaches as methodology 'standards' in order to highlight the differences among new as well as



existing approaches. In this vein, the current distinctions of approved/consolidated, small-scale, and micro-scale methodologies would all be considered 'standards' of methodology development.

IETA believes that thinking of approaches to methodology development as standards would provide a useful framework for further standardizing the project development process under the CDM. Defining and approving additional standards, like standardized baselines, would expand the reach of the CDM and provide project proponents and DNAs more flexibility to decide which methodology standard best suits the projects, technologies, or sectors they want to work in.

IETA believes that the CMP should specifically authorize the usage of standardized baselines as a first step towards developing alternative methodology standards. We propose that standardized baselines include: (1) **a qualified description of the baseline**, such as, "According to the standardized baseline and as accepted by the EB and host country DNA, the baseline for energy use for cooking within the project boundary is the use of unsustainably sourced biomass," (2) **conservatively quantified baseline emissions** associated with the existing technology, such as, "According to the standardized baseline and the study approved by the EB and the host country DNA, the baseline emissions amount to 3 tonnes of CO<sub>2</sub> per household per year," and **a positive list** of technologies/project activities, approved by the Executive Board and the host country DNA, which are considered additional, such as, "the supply of biomass fired cooking stoves and biomass briquettes within the project boundary is considered additional." Following this template would maintain a country-by-country approach and environmental integrity while opening the CDM to new sectors and new host countries.

## Recommendations

IETA suggests that the CMP issue the following further guidance related to these critical issues:

- *Requests* the Executive Board to introduce the concepts of materiality and level of assurance into all relevant CDM processes, including registration, issuance and review processes, and to direct the Secretariat to work with DOEs to develop and begin implementation of a work program for their introduction by 1 March 2011.
- *Requests* the Executive Board to develop a framework of methodology standards including new and existing approaches, in order to facilitate the development of alternative approaches to CDM projects and to further encourage the development of CDM projects in under-represented host countries and sectors.
- *Requests* the Executive Board, in conjunction with DNAs, to implement standardized baselines that incorporate, as necessary, qualitative and quantitative descriptions of pre-approved baselines and positive lists of technologies and/or project types, in order to simplify the CDM processes and encourage the development of CDM projects in under-represented host countries and sectors.
- *Requests* the Executive Board to finalize guidance on the use of the first-of-its-kind barrier and the assessment of common practice, as its highest priority, and *authorizes* the Executive Board to utilize alternative decision-making procedures, as appropriate, when responding to this request.
- *Requests* the Executive Board to build upon the experience gained in the establishment of simplified modalities for demonstrating additionality for very small-scale renewable energy and energy efficiency project activities by developing simplified modalities for additional project types, as appropriate.
- *Requests* the Executive Board to establish a procedure that explains the exact scope required of DOEs for the satisfactory validation of a DNA-calculated or DNA-approved national or regional grid emission factor and permits all DOEs to rely upon a single DOE validation of a DNA-



calculated or DNA-approved national or regional grid emission factor for the validation of CDM project activities within the relevant host country.



## Conclusion

As stated in the opening, IETA's 160+ member companies believe that this document and its annex of recommended *Further guidance relating to the Clean Development Mechanism* should serve as a guide to negotiators as the Cancun talks begin. Despite some positive changes this year, there remains a clear need for reform on a number of levels, all of which will improve the efficiency of the CDM now and over the long run.

As the most active and diverse group of CDM stakeholders in the world, IETA not only hopes that the CMP will come together this year to enact meaningful CDM reform, we also urge the Parties to make a strong statement in Cancun about the CDM's future.

On July 20th, the UNFCCC published a paper on "Legal considerations relating to a possible gap between the first and subsequent commitment periods. Note by the secretariat." This note identifies legal options to prevent a gap between the first and subsequent commitment periods of the Kyoto Protocol and identifies and describes the legal consequences and implications of such a gap, if one should occur.

With respect to the CDM, the note lays out two possible interpretations of the relevant provisions of the Kyoto Protocol. The first envisions the continuation of the CDM during any gap period, given its continued contribution to sustainable development and the ultimate objective of the Convention. The second suggests that the CDM would not be able to continue in the event of a gap without an explicit decision that it should do so by the Parties. While this is a technical paper intended to provide the Parties with possible interpretations of the Protocol and their implications and not a definitive answer on any issue, it has already had consequences for project development under the CDM. Indeed, the uncertainty that has stemmed from the release of this paper has dealt an additional blow to the CDM at a time when demand uncertainty in the post-2012 period was already reducing investor interest. Project origination among many of the most active CDM project developers has come to a halt. The CDM Secretariat continues to receive requests for registration and issuance for projects in large numbers only because many projects have been in the pipeline for a long time, either in the early stages of development or awaiting validation.

In Copenhagen, the Parties made it clear that they support the CDM and the work it is doing to reduce emissions, enhance sustainable development, and diffuse clean technology in the developing world. The Parties have the ability to provide their interpretation of gap implication for the CDM in Cancun and thereby address this issue. A simple decision is needed to reaffirm that the CDM will continue to function regardless of a gap in commitment periods, and IETA strongly urges the Parties to act in Cancun to guarantee the CDM's future by approving that decision.



## Annex 1

### Recommendations to the CMP regarding “Further guidance relating to the clean development mechanism”

The International Emissions Trading Association (IETA) represents the most active Clean Development Mechanism (CDM) stakeholders in the world— including project developers, auditors, investors and compliance buyers from 6 continents— and has been working to support and improve the CDM since its inception. IETA would like to present the following suggestions to the Parties as they consider the requests and directions they are going to make to the CDM Executive Board at CMP 6 in Cancun, Mexico.

*The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,*

*Recalling the provisions of Articles 3 and 12 of the Kyoto Protocol,*

*Cognizant of decisions 7/CMP.1, 1/CMP.2, 2/CMP.3, 2/CMP.4, and 2/CMP.5*

### I. General

1. *Requests* the Executive Board, together with its support structure, to develop and implement a strategy to bring each of its procedures into compliance with its established timelines by 1 April 2011, with a maximum 7-day wait period before beginning completeness check.
2. *Requests* the Executive Board, from 1 April 2011, to refund the registration fee of all projects for which the timelines for the processing of requests of registration and issuance are breached by more than 4 weeks in total.
3. *Requests* the Executive Board to revise the registration and issuance procedures to indicate that the official registration date is the date at which the request for registration is submitted to the Secretariat.

*While the EB and its support structure have established timelines for many of the existing procedures, they remain widely out of compliance, including through an unlimited ‘waiting period’ before being ‘scheduled’ for completeness check. A request for registration or issuance submitted today would likely face a queue of approximately 3 months before it reaches the 30-day completeness check period, and the 30-day request for registration or issuance period. Given these delays, and the high cost they have for project participants in the form of lost CER revenue, IETA also believes strongly that the registration date, which determines from when CERs may be issued, should be the date at which the request for registration was submitted to the Secretariat.*

4. *Requests* the Executive Board to continue to enhance its policy-making role by developing and implementing new procedures for decision-making, including voting procedures, to be implemented when considering contentious policy issues.

*On issues as varying as the definition of “First-of-its-Kind” and the treatment of national policies, the Executive Board has been unable to issue clear, definitive guidance, largely due to disagreement among Board members. IETA believes that there must be some way to move forward with decision-making on critical issues when disagreements occur.*

### II. Governance

5. *Requests* the Executive Board to revise its internal procedures to ensure that discussions related to issues that are not project-specific, and pertain to policy issues with the possibility of widespread impact, are held in open session.



6. *Requests* the Executive Board to enhance communications with project participants and stakeholders, including through the establishment of modalities and procedures for direct communication between the Executive Board and project participants in relation to individual projects at all stages of the project cycle, as requested in para 8 of FCCC/KP/CMP/2009/21/Add.1.
7. *Requests* the Executive Board to develop and implement, as soon as possible, a formal procedure for considering unsolicited stakeholder correspondence, including timelines and an option to direct letters to specific panels, working groups, or teams in the Secretariat, in addition to the Executive Board.
8. *Requests* the Executive Board to develop and implement an email interface and telephone hotline for CDM project participants, DOEs, and DNAs to ask simple clarification questions for clearly established purposes.

*As it stands now, project participants have no direct, effective channel of communication to the Executive Board, CDM Panels and Working Groups, or the Secretariat, whether it be for simple questions, substantive policy issues, or time-sensitive discussion. Significant time is wasted when a short email or conversation could have answered a simple question; the Board often seems to lack appreciation of basic market concerns; and unsolicited letters are answered several months after the Executive Board has dealt with the issue of concern.*

### III. Accreditation

9. *Requests* the Executive Board to establish an outsourced training initiative for DOEs that is responsive to changes in the Accreditation Standard and Procedure as well as CDM rules and guidance.
10. *Requests* the Executive Board to ensure that the training initiative noted in para 9 above provides for the participation of project participants on a voluntary basis.

*IETA welcomes the VVM workshops that have been held this year but believes that they are still inadequate to the task of continuously educating DOE headquarters and non-central sites. Also, they were not open to project participants, who also need to understand CDM rules and requirements. CMP 5 requested the Executive Board to adopt measures to increase capacity and improve performance of DOEs, including systems to promote improved levels of training for auditors, which IETA believes can be served through on-going training programs developed in conjunction with the Secretariat but managed by an external company.*

### IV. Baseline and Monitoring Methodologies and Additionality

11. *Requests* the Executive Board to introduce the concepts of materiality and level of assurance into all relevant CDM processes, including registration, issuance and review processes, and to direct the Secretariat to work with the DOEs to develop and begin implementation of a work program for their introduction by 1 March 2011.
12. *Requests* the Executive Board to include training on the practical use of these concepts in forthcoming training initiative.

*The Parties at CMP 4 and CMP 5 requested the Executive Board to assess, as its highest priority, the need to incorporate the concepts of materiality and level of assurance. These concepts are common features of all auditing programs and are critical to any practical validation and verification system. Recent discussions within the Executive Board show a continued reluctance to introduce the concepts, so IETA believes firmer guidance is needed.*

13. *Requests* the Executive Board to finalize guidance on the use of the first-of-its-kind barrier and the assessment of common practice, as its highest priority, and *authorizes* the Executive Board to utilize alternative decision-making procedures, as appropriate, when responding to this request.



*CMP 5 requested the Executive Board to work, beginning at its next meeting, on the development of guidance on the use of first-of-its-kind barrier and the assessment of common practice. Almost a year passed before the Board held substantive discussion on the issue at EB 56, however, and agreement among Board members remains elusive.*

14. *Requests* the Executive Board to build upon the experience gained in the establishment of simplified modalities for demonstrating additionality for very small-scale renewable energy and energy efficiency project activities by developing simplified modalities for additional project types, as appropriate.

*IETA strongly welcomes the development of simplified modalities for demonstrating additionality for very small-scale renewable energy and energy efficiency project activities and believes that the extension of the use of positive lists to other project activities would greatly streamline the project development process, while maintaining environmental integrity. IETA suggests that the Executive Board consider methane abatement project activities in landfills, manure management, biomass waste management, and industrial wastewater as it expands this work.*

15. *Requests* the Executive Board to develop a framework of methodology standards, including new and existing approaches, in order to facilitate the development of alternative approaches to CDM projects and to further encourage the development of CDM projects in under-represented host countries and sectors.

*Standardized baselines, as commonly discussed, constitute only one method for standardizing the CDM project development process. IETA believes that there are several other equally viable methods, including but not limited to the use of modeled baselines and deemed savings approaches. IETA views all of these as methodology 'standards', which can be added to the existing approved/consolidated, small-scale, and micro-scale 'standards' for methodological development. IETA believes that thinking of approaches to methodology development as standards in this way would provide a useful framework for further standardizing the CDM. Defining and approving additional standards would expand the reach of the CDM and provide project proponents and DNAs more flexibility to decide which methodology standard best suits the projects, technologies, or sectors they want to work in.*

16. *Requests* the Executive Board, in conjunction with DNAs, to implement standardized baselines that incorporate, as necessary, qualitative and quantitative descriptions of pre-approved baselines and positive lists of technologies and/or project types, in order to simplify CDM processes and encourage the development of CDM projects in under-represented host countries and sectors.

*IETA believes that a standardized baseline which achieves the objectives listed in the above request is comprised of 3 elements: (1) **a qualified description of the baseline**, such as "According to the standardized baseline and as accepted by the EB and host country DNA, the baseline for energy use for cooking within the project boundary is the use of unsustainably sourced biomass," (2) **conservatively quantified baseline emissions** associated with the existing technology, such as, "According to the standardized baseline and the study approved by the EB and the host country DNA, the baseline emissions amount to 3 tonnes of CO<sub>2</sub> per household per year," and **a positive list of technologies / project activities**, approved by the Executive Board and the host country DNA, which are considered additional, such as, "the supply of biomass fired cooking stoves and biomass briquettes within the project boundary is considered additional."*

17. *Requests* the Executive Board to establish a procedure that explains the exact scope required of DOEs for the satisfactory validation of a DNA-calculated or DNA-approved national or regional grid emission factor and permits all DOEs to rely upon a single DOE validation of a DNA-calculated or DNA-approved national or regional grid emission factor for the validation of CDM project activities within the relevant host country.

*The establishment of national and regional grid-emission factors (GEF) is a key step in the facilitation of CDM project activities in a host country as it streamlines the process of baseline and additionality determination and reduces costs for many projects. The CDM still lacks clear guidelines for the validation and general approval of these grid-emission factors, however. Current procedures still require each DOE to re-validate the GEF unnecessarily. This requirement adds unnecessary and, at times, unbearable cost to project participants, yet the Executive Board seems to be deadlocked in its discussions on the issue and requires CMP guidance.*



## V. Registration and Issuance

18. *Requests* the Executive Board, as its highest priority, to revise and clarify the treatment of national policies, including but not limited to feed-in tariffs for renewable energy, with respect to the establishment of additionality and the baseline scenario.

19. *Requests* the Executive Board to closely consult with all CDM stakeholders when revising and clarifying its guidance on the treatment of national policies, including involving DNAs and project participants in any workshops or extraordinary meetings that may be organized.

*The lack of clear guidance on the treatment of national policies has had and will continue to have serious negative impacts on renewable energy project development in countries where renewable energy is most needed in order to address climate change.*

20. *Requests* the Executive Board to revise its “Procedures for erroneous inclusion of a CPA” to limit the liability of DOEs for the wrongful inclusion of CPAs by restricting the ability to review individual CPA inclusion to 2 years after initial inclusion.

21. *Requests* the Executive Board to finalize, as a high priority, the guidelines on the definition of eligibility criteria for CPA inclusion in a PoA, and to request the input of stakeholders before approval.

*While IETA appreciates the efforts made to facilitate the implementation of PoAs this year, the revisions made with respect to the liability of DOEs for wrongful inclusion of CPAs in a PoA are entirely inadequate, as the liability is still not limited. The Board has also not yet provided adequate guidelines for the establishment of eligibility criteria for CPA inclusion in a PoA, which is one key factor in limiting DOE liability and ensuring the environmental integrity of PoAs.*

22. With respect to the “Procedure regarding the correction of significant deficiencies and the excess issuance of CERs”:

- a. *Clarifies* that the term “significant deficiency” should be defined in reference to, and that these procedures should be implemented in conjunction with, the forthcoming “Standard on the use of the concept of materiality”;
- b. *Decides* that the review cost must be borne by the DOE under review only when deficiencies are found;
- c. *Decides* to cap the maximum costs possible to be borne by the DOE and requests the Executive Board to develop and provisionally apply such as cap, following consultation with DOEs and other relevant stakeholders;
- d. *Authorizes* the Executive Board to choose an expert reviewer or another DOE to undertake the required review;

*IETA believes strongly that the current draft “Procedure regarding the correction of significant deficiencies and the excess issuance of CERs” would be extremely detrimental to the market, as it places an unpredictable, unlimited, and likely uninsurable amount of risk on DOEs for excess issuance. IETA believes that the Executive Board would benefit from further guidance on undefined terms in current CMP decisions. We also believe that some CMP decisions need to be amended from original form, as their consequences are now more fully understood.*

23. *Further requests* the Executive Board to develop and provisionally implement an alternative



mechanism, such as an insurance account of credits managed by the Secretariat and populated through the addition of a levy applied to CER issuance, to ensure the environmental integrity in cases where:

- a. Excess issuance occurred due to reasons other than the negligence of the DOE, in cases where the project participant can not be found and/or held liable;
- b. Excess issuance occurred due to DOE negligence but the DOE forfeits accreditation status rather than acquire and cancel an equivalent amount of CERs;
- c. Excess issuance occurred due to DOE negligence over and above the cap placed on the liability of the DOE.

*IETA believes that an alternative mechanism is necessary to adequately insure the environmental integrity of the CDM while also ensuring that a manageable level of risk is placed on the DOEs. Further, the levy referred to in para 23 above should be established through consultation with stakeholders and with the aid of an analysis and recommendation by an independent expert. IETA believes it would also be appropriate to conduct periodic analysis of the risks of over-issuance and the needs of the insurance account in order to determine if a percentage of the CERs held in the insurance account could be released to provide additional revenue to the Adaptation Fund.*

24. *Clarifies* that the goal of the revised registration, issuance, and review procedures should be to increase the efficiency, predictability, and procedural due process of the CDM.

25. *Further clarifies* that ‘alternative timelines’ should result in shorter, more efficient registration, issuance and review processes.

26. *Requests* the Executive Board to revise its procedures for registration and issuance to provide for minor issues in completeness checks to be dealt with through direct telephone and/or email communication between the Secretariat and DOE/Project participant and not result in the recommencement of the completeness check process, including ‘waiting time’.

27. *Clarifies* that the request in FCCC/KP/CMP/2009/21/Add.1 para 39(a) to provide the DOE and project participant with ‘adequate’ opportunity to respond to issues raised with a request for review, in addition to ensuring adequate time for the response to be submitted, also refers to the ability to understand what constitutes an appropriate and complete response, to the feasibility of the project participants and DOE answering the questions raised, and to the appropriateness of the scope of the questions raised, given existing CDM rules and requirements.

28. *Requests* the Executive Board to establish a procedure for initial calls to be set up by the Secretariat with the project participants and DOEs in order to discuss the reasons for review before the review is decided, in order to eliminate issues that can be easily resolved without review as well as ensure common understanding of the issues requiring clarification if a review is deemed necessary.

29. *Requests* the Executive Board to conduct a thorough analysis of the impact of the revised registration, issuance and review procedures 6 and 12 months after the date of their implementation and make this analysis available to the public and the CMP, in order to enable the consideration of their effectiveness against the above criteria.

*IETA welcomes the attempts by the Executive Board and the Secretariat to improve the efficiency and reduce the timelines of CDM procedures but unfortunately has not witnessed an adequate decrease in timelines for projects requesting registration and issuance and sees a continued lack of clarity on request for review questions. The new procedure of kicking submissions found to be “incomplete” to the back of the queue is resulting in an additional 3 month waiting period for many projects, even for minor issues that could be resolved in a matter of minutes. In addition to the time and effort of project participants and DOEs, this process further burdens the Secretariat, who must check the entire submission over again. IETA believes that many of these issues and the confusion about review questions can be solved through use of direct telephone and email communication between members of the Secretariat and the project participants and DOEs.*



30. *Requests* the Executive Board to extend the right of appeal under the independent appellate body to DOEs regarding decisions taken under the "Procedures for regarding the correction of significant deficiencies and the excess issuance of CERs" and Accreditation Standard.

*Decisions taken under the excess issuance procedure and under the Accreditation Standard (i.e decision to suspend or withdraw the accreditation of a DOE) have significant and long-term consequences for DOEs, both monetarily and from a reputational standpoint. As such, DOEs should be afforded the right to appeal a decision of the Executive Board similar to the new appeal procedures for requests for registration and issuance.*

## VI. Regional and Subregional Distribution and Capacity-Building

31. *Requests* the Executive Board and its support structure to accelerate the work of developing top-down methodologies by dedicating significant additional resources to this work and developing a work plan for 2011 that includes a goal of developing 10 new top-down methodologies.

32. *Requests* the Executive Board and its support structure to accelerate the work of revising and simplifying methodologies, including the addition of the option to apply conservative default factors.

33. *Requests* the Executive Board to continue to closely consult with project participants, other CDM stakeholders, and independent experts as they undertake this work on new and revised methodologies.

*IETA commends the work that has been done on the development of top-down methodologies and inclusion of default factors so far, but believes that the work must be significantly increased and enhanced if we are to see results in terms of a noticeable increase in the number of project activities in currently under-represented host countries and sectors.*

34. *Requests* the Executive Board to hold regional workshops to provide assistance to DNAs, as needed, regarding the use of EB54, Annex 15 to promote projects in their countries.

*IETA has become aware that many DNAs are either not aware of the new simplified modalities for very-small scale renewable energy and energy efficiency projects or else do not have the resources to effectively promote their use.*

35. *Requests* the Executive Board to develop a program to provide assistance to DNAs, as needed, to calculate national and/or regional grid factors.

*DNAs and project participants frequently express an inability, whether for technical or financial reasons, to calculate their national and/or regional grid emission factors, which is a key step in the facilitation of CDM project activities in a host country. Providing assistance with this task would go a long way to facilitating the development of projects in currently under-represented host countries.*

36. *Encourages* the Executive Board to accelerate ongoing work to revise existing methodologies to provide for scenarios where future anthropogenic emissions by sources are projected to rise above current levels due to specific circumstances of the host Party, using external experts where necessary to facilitate the work in this regard.

*IETA appreciates that the Small-scale Working Group is making progress on this issue by acknowledging a future scenario of higher emissions as a realistic baseline in some circumstances and deciding to apply a methodology-specific approach. IETA believes that this work is useful and should be continued at an accelerated pace in order to see the maximum benefits in currently under-represented host countries.*



## **VII. Resources for the Work of the CDM**

37. *Requests* the Executive Board to apply significant additional time and resources to developing strategies to improve the efficiency of the CDM process, including hiring external experts and dedicating additional time for Executive Board discussion of efficiency before 1 April 2011, in order to alleviate future pressures on the Secretariat recruitment process.

38. *Requests* the Executive Board to consider outsourcing the entire completeness check process to outside consultants in order to reduce the pressures on the Secretariat.