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Submission by the Institute for Global Environmental Strategies (IGES)

Views on the clean development mechanism (CDM) referred to in paragraphs 1 of document FCCC/KP/CMP/2013/9/Add.1 as invited in paragraphs 2 of the document.

30 April, 2014

Introduction

IGES welcomes the opportunity to submit its views on the **technical paper for possible changes to the modalities and procedures for the clean development mechanism (FCCC/TP/2014/1)**, as invited by the paragraphs 2 of FCCC/KP/CMP/2013/9/Add.1. IGES has been conducting a range of policy research and capacity building activities on market mechanisms in the Asia and Pacific. This submission intend to provide our views on technical discussion related to the programme of activities (PoAs), crediting period and additionality based on our database and its analysis.

General views on the Review of CDM Modalities and Procedures (M&P)

- Generally, we are of the view that implementation of the CDM M&P has been the role of the CDM executive board (EB)and we believe that this needs to be maintained as it provides the most practical and effective approach when it comes to the interpretation of the M&P into the operation of the mechanism.
- Detail technical discussion related to the CDM modalities and procedures (M&P) should be dealt with the EB to reflect the inputs and experience on the ground through consultations with meth-panel members and inputs from practitioners. We see the value of such technical discussion to be continued on some part of the demonstration of additionality (section G), further elaboration of the role of designated national authorities (DNAs) (section F) and simplification and streamlining of the project cycle for certain project categories (sections G).
- On the contrary, the CMP should decide with basic principle which requires political decisions such as membership and composition of EB (section A), length of the crediting period, and some part of the requirement of additionality (section G).
- It is imperative that the operation of the CDM should be continued up to 2020 with high predictability and stability in terms of its operation and institutional arrangement, therefore, the CMP should conclude with high priority on this agenda item based on the substantive discussion on the SBI 40 and 41.

Views on specific elements

PoA

Suggestion

- **No need to add provisions on the PoAs into the CDM M&Ps.** The role of the CDM M&P is to guide the basic principle of PoA, and not the specific details of PoA rules and guidelines.

Main reasons

- Most of the rules and guidelines related to the PoA have been developed through discussion under the EB. As a result, a number of PoA projects have entered into the PoA pipeline in proportion to the development of PoA rules and guidelines.
- The process of CMP is too rigid to develop rules and guidelines in order to fully take into account of different situations in each PoAs implementation.

Background

As the technical paper mentioned, the description on PoA in CDM M&P is only 7/CMP.1 paragraph 20, which states that "project activities under a programme of activities (PoA) can be registered as a single clean development mechanism project activity provided that approved baseline and monitoring methodologies are used". The remainder of the rules and guidelines on the PoA have been developed at the CDM EB level as shown in Figure 2. In 2007, the first guidance on the PoA was developed by the EB as "Guidance on the registration of project activities under a programme of activities as a single CDM project activity" that provides a basic guiding principle for the registration of PoA projects. At the same time, the EB published "Procedures for registration of a programme of activities as a single CDM project activity and issuance of certified emissions reductions for a programme of activities" that formulate the development of PDD and its registration process for PoA projects. Following this, "procedures for review of erroneous inclusion of a CPA" and "Procedures for approval of the application of multiple methodologies to a programme of activities" were developed as complementary documents.

During 2010, the development of the PoA procedure was further elaborated as shown by the two revisions of "Procedures for registration of a programme of activities as a single CDM project activity and issuance of certified emission reductions for a programme of activities". After that, three standards on the PoA were consequently developed and combined into a single standard known as the "Standard for demonstration of additionality, development of eligibility criteria and application of multiple methodologies for programmes of activities" As a result, shown in Figure 1, there have been an increasing number of PoA projects which were open to public comments, followed by normal CDM projects. At the same time, PoA promoted a number of small scale projects for energy efficiency at household level, biogas utilisation for cooking and solar and hydro power for local residence as shown in Figure 3. Hence, it can be said that PoA has successfully contributed to enhancing the livelihood of local communities such as households.

Based on the practice above, it can be said that the EB initiated the development of rules and procedures for the PoA thorough several inputs from technical experts and project participants. As a result, a number of PoA projects were successfully developed with that guidance in more flexible manner.

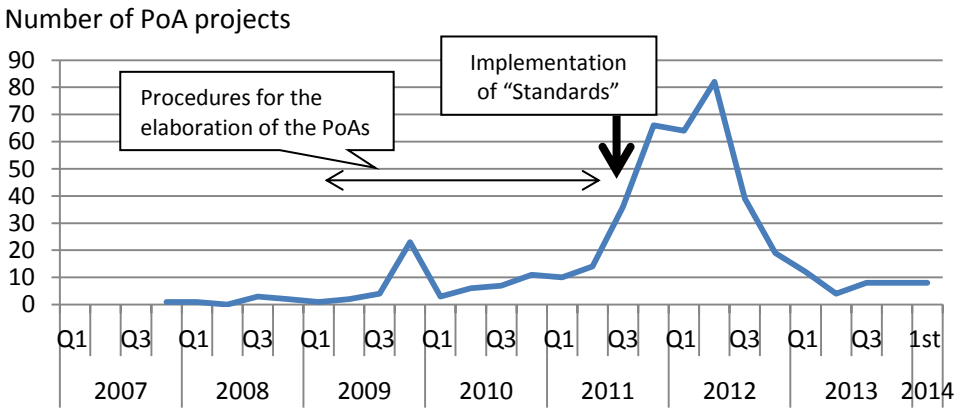

Figure 1. Number of projects entering public comments

Source: IGES CDM Programme of Activities (PoA) Database as of 2 April 2014

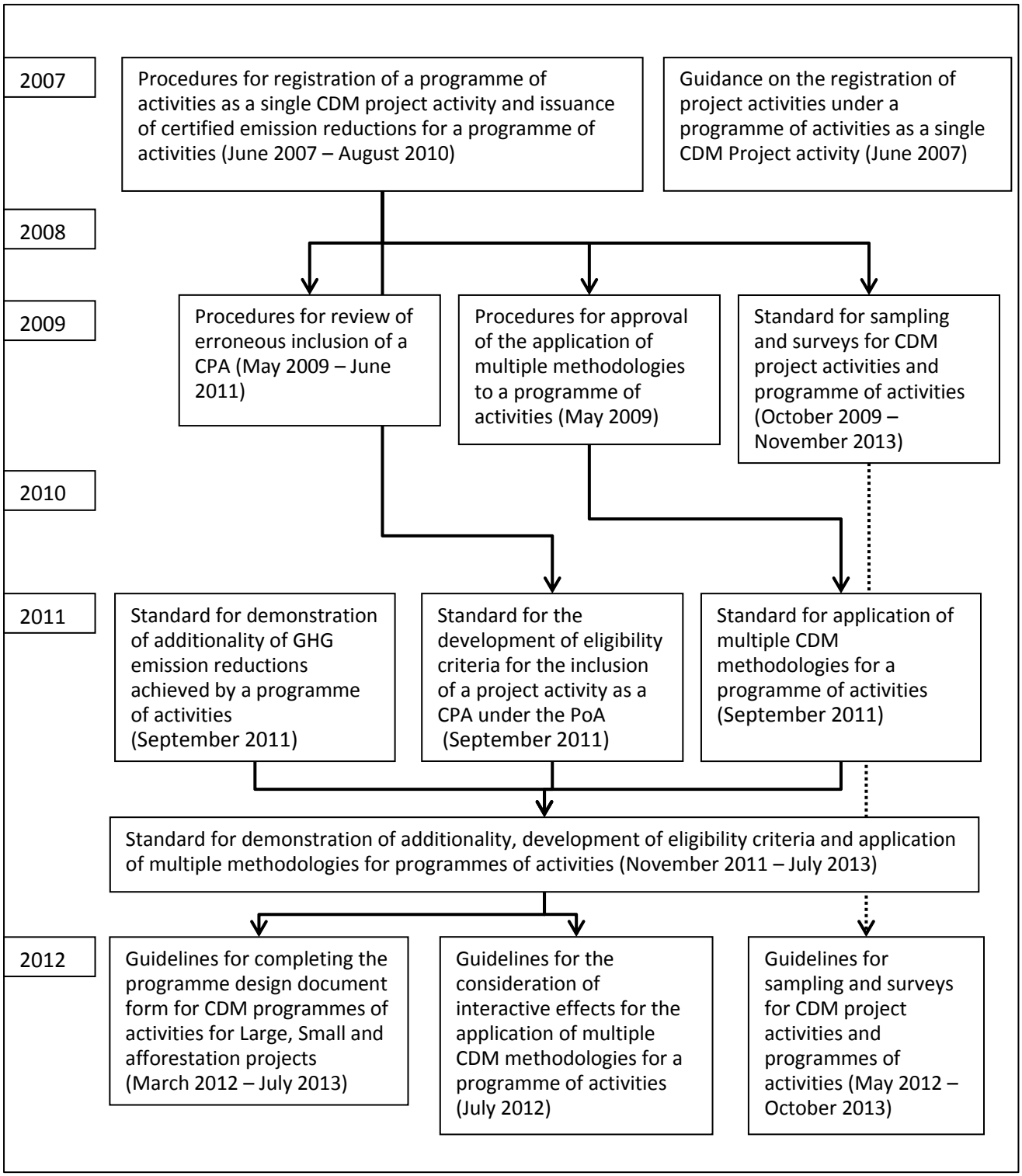

Figure 2. History of developing rules and guidelines for the PoA

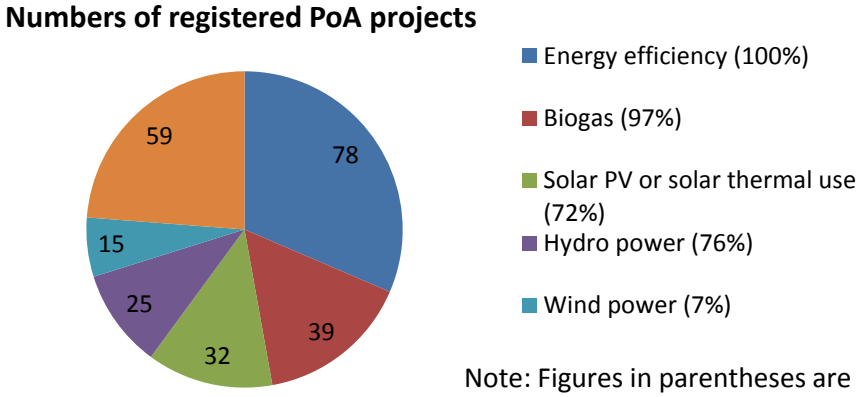

Figure 3. Number of registered PoA projects by project type
Source: IGES CDM Programme of Activities (PoA) Database as of 2 April 2014

Crediting period

Suggestion
The crediting period should be fixed as 7 years for all projects (by 2020).

Main reasons

- Fixing of shorter crediting period promotes new projects to enter the pipeline and avoid the "lock-in" of certain types of projects (i.e. hydro and wind). As a result, a type of project applying for new mitigation technology would have more opportunity to be funded under the CDM.

Background

The long length of the crediting period of CDM projects might become a barrier for the new CDM project to enter. As Figure 4 shows, the estimated emission reductions from decomposition of industrial gases such as HFC and N_2O, biogas, methane recovery and utilisation will be phased out in the relatively early stage.

Most of the renewable energy projects such as wind, hydro and biomass power choose renewal crediting periods which can achieve better emissions reduction. This means that once those projects are registered, they stay in the portfolio of CER supply for a long time. This might be problematic since some of renewable energy are already "common practice" owing to the innovation of technology and they might also be subsidised by the feed-in-tariff.

We analysed the hypothetical impact of the differentiation of crediting period. For the first option suggested by the technical report, which is "shortening the length to 5 years, renewable twice, or 7 years non-renewable", is demonstrated in Figure 5. This option has an impact by limiting the estimated emissions reduction from wind and hydro power plant during 2024 to 2028. For the second option of "applying 10 years for large project activities and 7 years for small project activities, renewable once", the emissions reduction of all projects would be equally eliminated after around 2016. This option could raise controversial issues on how to legitimise an exception for small projects such as composting, high efficient cook stove, LEDs, biogas utilization for households, despite the fact that small projects may have a high impact on co-benefits. Therefore, IGES proposes another option, that is "to apply 7 years for all projects". This option could facilitate the development of new projects in the pipeline and avoid the "lock-in" effect of some of the project (i.e. hydro and wind).

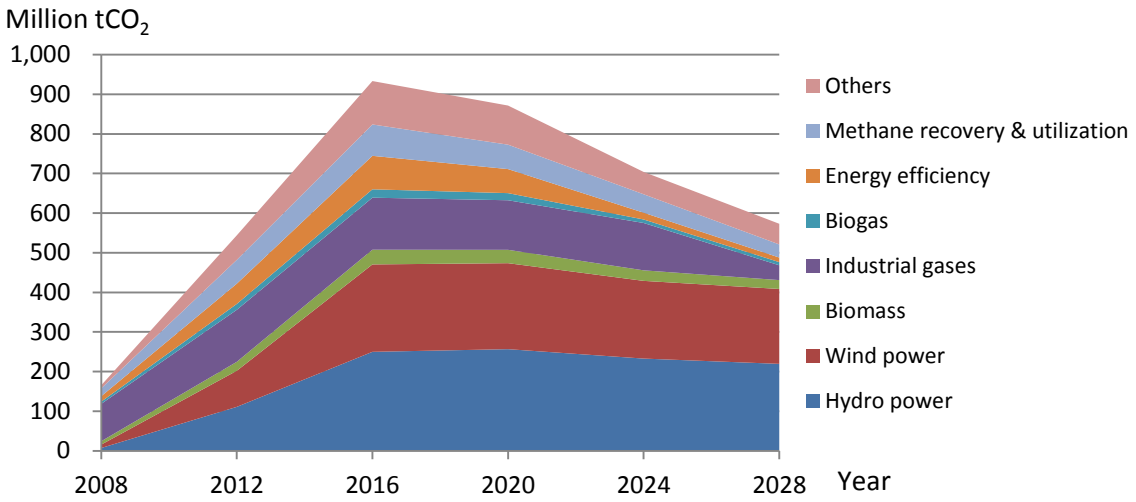

Figure 4. Estimated CERs by year by the existing CDM M&P (7 years renewable twice and 10 years once)
Source: IGES CDM Project Database as of 31 March 2014

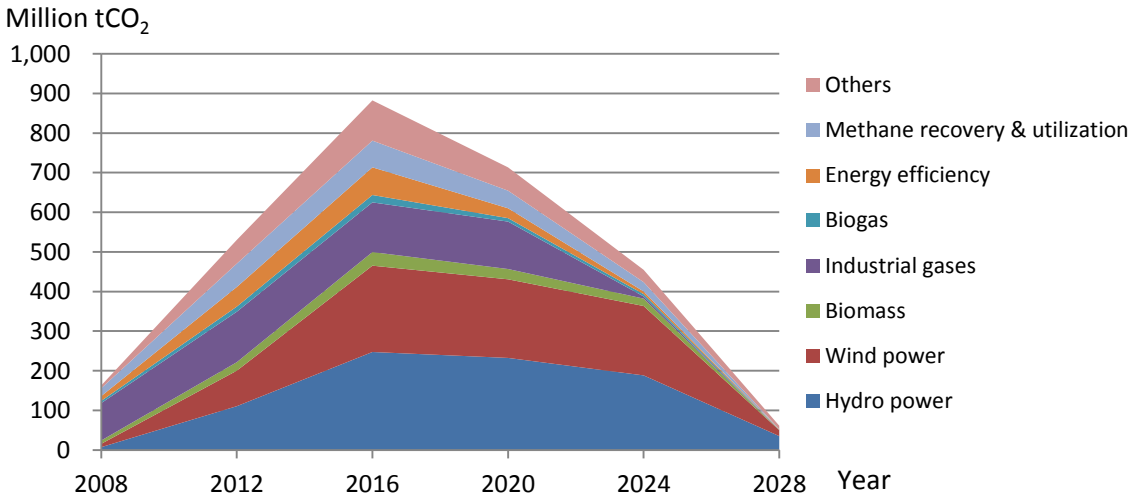

Figure 5. Estimated CERs by year, applying 5 years renewable twice, or 7 years non-renewable
Source: IGES CDM Project Database as of 31 March 2014

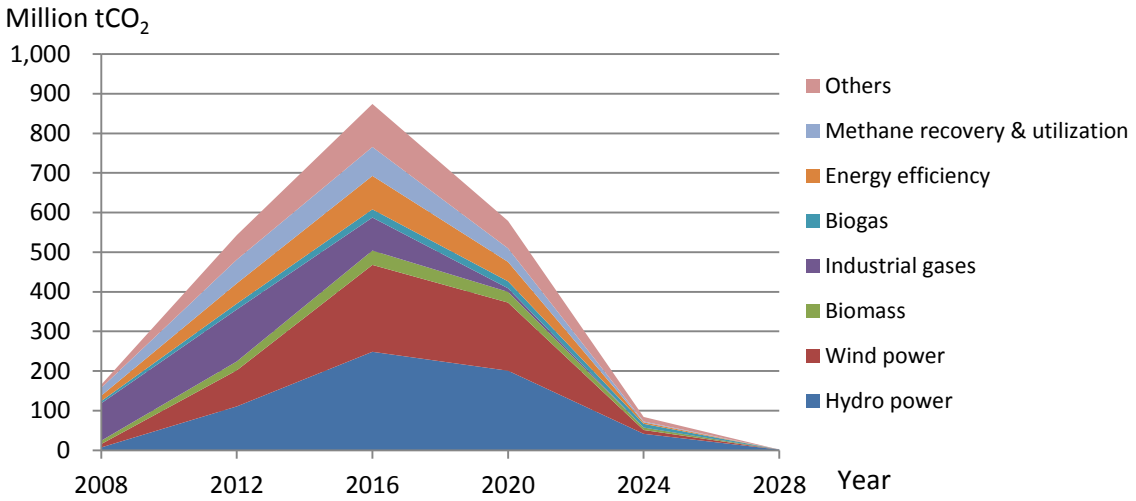

Figure 6. Estimated CERs by year, applying 10 years for large project activities and to 7 years for small project activities, renewable once

Source: IGES CDM Project Database as of 31 March 2014

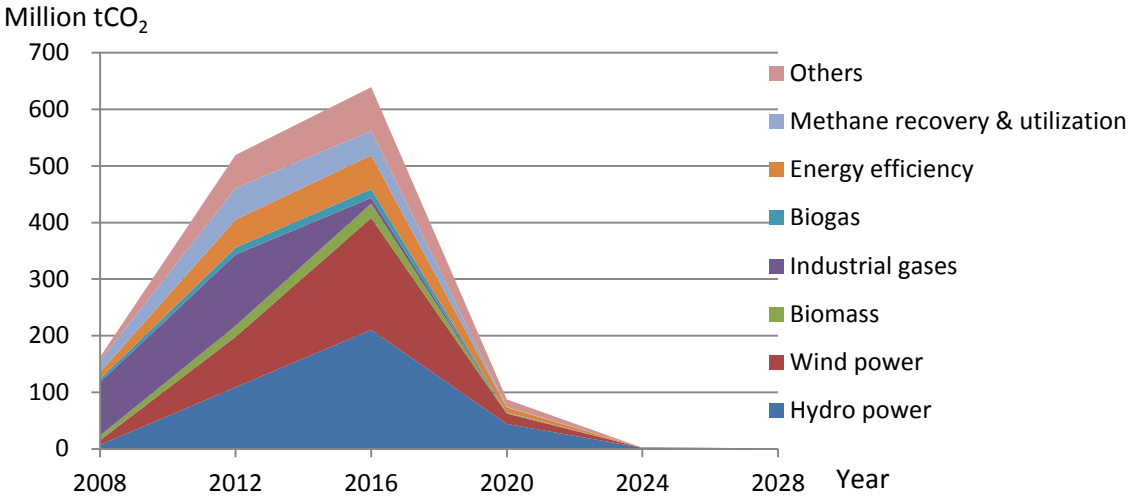

Figure 7. Estimated CERs by year, applying 7 years for all projects (IGES proposal)

Source: IGES CDM Project Database as of 31 March 2014

Additionality

Introducing provisions on additionality assessment into the modalities and procedures for the CDM

Suggestion

At the CMP level, we suggest that there is no need to add the provision of additionality assessment into the CDM M&P.

Main reasons

The EB has developed several tools, guidelines and guidance in response to technical inputs from project participants and relevant institution. Therefore, setting those rules and procedures is preferable at EB level rather than at the CMP level, considering the limited time and technical perspectives of CMP meetings. However, political decisions are required to determine some aspects of additionality such as E- policy, implementation of dynamic baseline and relevance with other mechanisms, which can be only addressed at CMP level.

Background

The rules and guidelines on additionality have been developed through several documents by EB as shown in Table 1. These documents have several technical matters such as investment analysis and common practice analysis, which would be difficult to discuss at CMP level as a political discussion.

Table 1. List of rule and guidelines for demonstration of additionality

Document title	EB meeting
Tool for the demonstration and assessment of additionality	EB 70 annex 08
Combined **tool** to identify the baseline scenario and demonstrate additionality	EB 70 annex 09
Guidelines on additionality of first-of-its-kind project activities	EB 69 annex 07
Guidelines on the assessment of investment analysis	EB 62 annex 05
Guidelines for objective demonstration and assessment of barriers	EB 50 annex 13
Guidelines on common practice	EB 60 annex 08
Guidelines for demonstrating additionality of microscale project activities	EB 60 annex 25
Guideline for objective demonstration and assessment of barriers	EB 50 annex 13
Guidance related to use of additionality tool	EB 31
Clarification on applicability of the "Guidelines on the assessment of investment analysis"	EB73 annex 08
Clarification on reference to the Tool for the demonstration and assessment of additionality	EB21
Clarification on the applicability of the "Guidelines on additionality of first-of-its-kind project activities" for small-scale CDM project activities or component project activities	EB 68 annex 28

Principle for demonstration for additionality that could be included

Positive list

Suggestion

A positive list for project type that is deemed to be additional promotes its registration. But the period of its effectiveness should be limited to a few years, e.g. three years.

Main reasons

Introduction of a positive list would reduce the transaction costs in the validation stage, especially for small scale projects. But there needs to be a reassessment of the additionality of the technology based on the conditions in the country or technological progress in order to ensure environmental integrity.

Background

The one of the significant impacts on the implementation of a positive list occurred in small scale PV projects. At EB63 in 2011, EB developed the positive list of grid-connected renewable electricity generation technologies (up to 15MW of installed capacity) that are deemed to be additional. Indeed, a number of small scale CDM projects that is less than 15 MW were registered through using positive lists as shown in Figure 8, and the most of projects are implemented in India, China and Republic of Korea as Figure 9 shows. However, PV in some of those host countries is becoming business as usual technology. As Figure 10 shows annual installed capacity, the installed capacity of PV in the countries has increased rather than the registered CDM project.

Hence, it should be noted that introducing a positive list can catalyse the implementation of new technology, but should be carefully reviewed in accordance with the country circumstances.

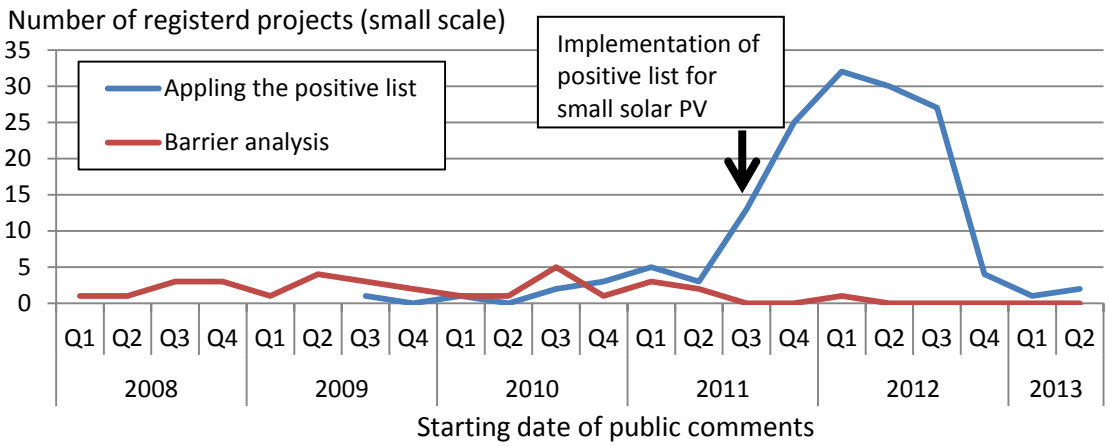

Figure 8. Development of small scale solar PV projects under the CDM
Note: Some projects revise PDDs when applying to request registration
Source: IGES CDM Project Database as of 31 March 2014

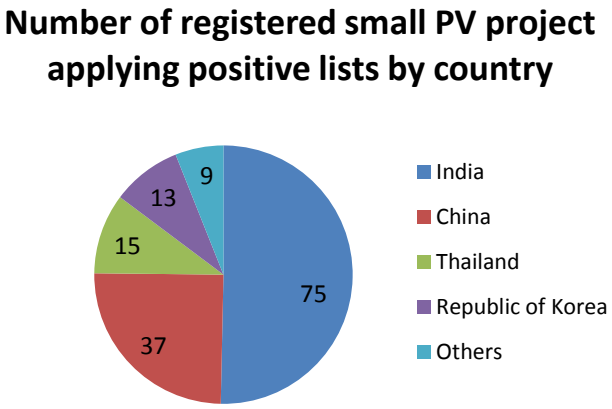

Figure 9. Number of small scale PV projects under the CDM
Source: IGES CDM Project Database as of 31 March 2014

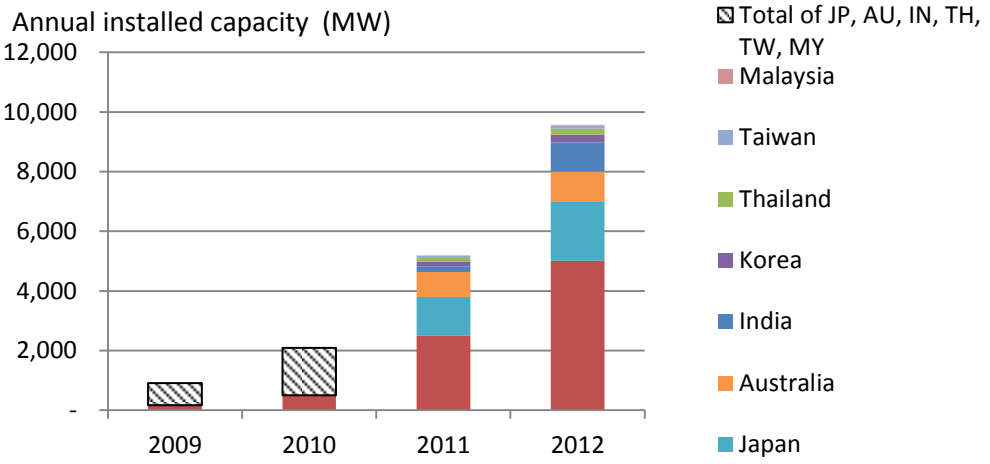

Figure 10. Annual Installed capacity of all PV including non-CDM projects
Source: European Photovoltaic Industry Association (2013)

Dynamic baselines

Suggestion

The application of dynamic baseline requires further analysis and consideration at EB level and therefore, no need to add in the provision of CDM M&Ps at this point.

Main reasons

- The definition of dynamic baseline is still vague and the impact of such changing baseline undermines the environmental integrity of the mechanism.
- Grid emission factors, for example, are some of the most widely used factors of CDM projects and there is a large variation in the factors, especially build margin and a periodical update creates large variations in emission factors.

Background

By April 2014, 6,277 of 7,472 (84%) registered CDM projects use grid emission factors to calculate GHG emissions reductions for projects, according to the IGES project database (IGES 2014 a). This number shows that grid emission factors are key numbers for setting baselines under the CDM. In practice, 5,923 of 6,277 (84%) projects apply the ex-post option for determining the factors. However, grid emission factors, especially build margin, are fluctuating year by year as shown in Figure 11 which indicates the national published factors as the build margin option in India, Malaysia, North China and Sri Lanka grid. The figure means that once a project applies certain value of GEF using the ex-ante option, the project can apply the same factors for 7 or 10 years even though the factors increase or decrease. This fluctuation might cause environmental integrity issues. Hence, in theory, the GEF for all projects should be updated every year, however, not all the national governments including DNAs can periodically publish their national grid emission factors

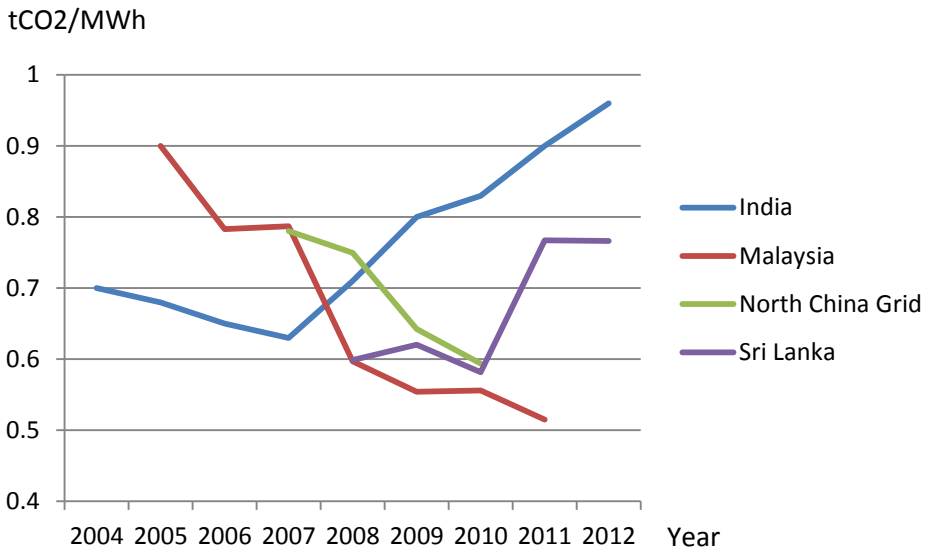

Figure 11. Grid emission factors (Build Margin) for India, Malaysia, North China and Sri Lanka grids
Source: IGES list of grid emission factors as of 31 March 2014

Consideration of national and sectoral policies

Suggestion

The paragraph 45 (e) of the CDM P&P should be deleted and the issue of treatment of national and sectoral policies should be dealt with EB.

Main reasons

There is a risk that the application of national and sectoral policy particularly those policies that encourage less energy intensive technologies (so called E-policy) could cause double claiming of emissions reduction achieved by the CDM and/or other domestic policies. Also, it would cause complex arguments when assessing which policy can be defined as E- policy.

Background

The national and sectoral policy is a crucial for demonstrating additionality. For example, even though a host country implements feed-in tariffs for wind power projects as NAMAs, CDM projects for wind power project do not need to take into account the FIT for the demonstration of additionality such as investment analysis. While those low carbon policy above should be encouraged in developing country, the implementation of the policies might cause accounting issues such as double claiming of GHG emissions reduction as shown in Figure 12. In order to avoid this situation and need to maintain the credibility of the CDM, we suggest that CDM M&P should not require the consideration of national and sectoral policies when it comes to the development of baseline and assessment of additionality.

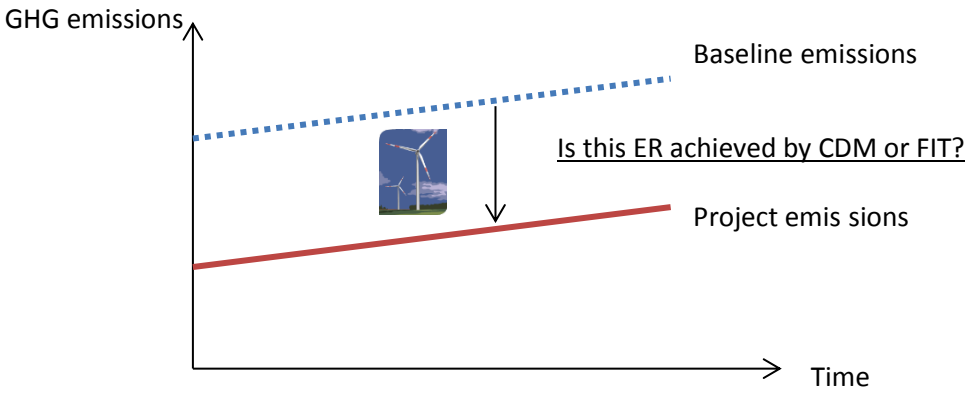

Figure 12. Issues on applying E-policies

References

CDM EB (2010) The application of E+/E- policies in the assessment of additionality, CDM Executive Board meeting 52 Annex3.

CDM EB (2011) Attachment A of Appendix B, CDM Executive Board meeting 63 Annex24.

IGES (IGES 2014b) IGES List of Grid Emission Factors, Institute for Global Environmental Strategies.

EPIA (2013) Global Market Outlook for Photovoltaic 2013-2017, European Photovoltaic Industry Association.

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