



Outcome of the CDM negotiations in Warsaw

Small reform or pathway to transition?

- In Warsaw, Parties had the task to review the underlying rules of the CDM, the CDM modalities and procedures (M&P).
- CMP 9 concluded with two relevant decisions on the CDM.
- Parties will continue the review of the CDM M&P through 2014 with technical inputs from the secretariat.
- The discussions took place against the backdrop of a faltering market for CDM credits which put emphasis on how the reform of the CDM can open up new sources of demand.

Why reform?

Lately market participants have come to expect little excitement from the Clean Development Mechanism (CDM). As the market continues to be depressed with no recovery of demand in sight, changing the rulebook of the CDM may not seem like a priority. Yet in Warsaw, Parties were tasked to do just that: to review the underlying rules of the CDM, its Modalities and Procedures (M&P)ⁱ as part of a long planned mandate.ⁱⁱ What could have been treated as a fulfillment of the mandate with minimal effort opened the door for a wider reconsideration of the fundamentals of the CDM, triggering a diversity of views and sometimes heated debate. Outside the limelight of the Warsaw negotiations, Parties discussed rather big changes to the CDM, including how it could be transformed into a tool with broader applicability, fitting wider purposes than offsetting by Annex I countries and thereby opening up new sources of demand. Parties also discussed rethinking some of the basic guidance on the project cycle, the institutional architecture of the CDM and eligibility of projects.

Outcome

CDM negotiations in Warsaw concluded successfully with two decisions (see box 1) in which Parties provided further impetus to existing trends and broke some new ground. There was solid progress on a few items and more importantly agreement to continue negotiating more fundamental changes during 2014. Measured by the submissions and interventions of Parties the final decisions are a low common denominator and fall short of the greater reform ambitions of many negotiators. However, given the odds against an agreement in Warsaw the constructive progress on several issues surely is a success. Negotiations were burdened by the sheer vastness and complexity of the mandate and diverging views on whether the review of the M&P should be a simple housekeeping exercise, cleaning up the rulebook and aligning it with current practice, or be taken as an opportunity for substantial changes. The impasse at SBI 38 in Bonn earlier this year, where Parties had missed an entire negotiation round, put an extra strain on



negotiation time. CDM negotiations also seemed affected by the stalemate in the negotiations on the New Market Mechanisms (NMM) that ended with no concrete result in Warsaw. Whether this will ultimately boost the CDM reform process by rekindling interest in the mechanism or burden it with more crunch issues spilling over from other negotiation streams is yet to be seen. It also remains open whether the review process that started in Warsaw will put the CDM on track for fundamental reform.

Overview of issues

Negotiations in Warsaw covered an impressive quantity of issues. The following provides an overview of those on which some form of agreement was reached, those on which Parties decided to request further technical inputs, and those on which no agreement could be reached.

Areas of agreement

Parties broadly agreed on a variety of issues ranging from the undisputed to the more contentious.

- There was overall endorsement for strengthening and more clearly specifying the **role of Designated National Authorities** (DNAs) in the CDM M&P both for CDM host countries as well as those of Annex I countries.
- A wide recognition prevailed that **Programme of Activities** (PoAs) are a category of their own which **need specialised rules** and an adapted project cycle. How this shall be done still requires further technical analysis.
- Parties endorsed further **simplifications of the project cycle and methodologies**, including such innovative concepts as the possibility to develop the monitoring plan after project registration (but before the first verification) for certain project categories and a re-examination of the threshold sizes of micro-scale projects in PoAs.
- Parties **strengthened the use of sectoral baselines** by requesting the CDM Executive Board (EB) to expedite the development of sector-level baselines and additionality thresholds for countries underrepresented in the CDM and enabling Designated Operational

Entities (DOEs) to perform sector specific validation and verification, all the while avoiding the term standardised baselines. During negotiations the term had triggered discussions whether standardised baselines should become mandatory to use once they had been developed, an area where Parties' views differed.

- Parties strengthened the role of the CDM EB in the **monitoring of sustainable development benefits** of projects by urging the EB to report on the use of the voluntary sustainable development tool and to develop guiding tools that assist DNAs in such monitoring. The latter also targets ongoing monitoring of a project's impact after CDM registration. Compromise language was devised that allows the CDM EB to become involved without challenging the prerogative of host country DNAs in this field.
- Similarly, a role for the CDM EB was defined in assisting DNAs in the development of **guidelines for local stakeholder consultations**.

Areas for further technical analysis

Parties identified a number of areas where further technical analysis and information would be needed. These include the implications of **changing the membership structure of the Executive Board** (several suggestions were on the table including the professionalisation of the Board), possibilities for **differentiating the crediting period** for different project technologies and the extension of the concept of **materiality** that is currently applied in verification to validation and beyond. In addition, **alternative ways** to the current liability ruling placed on DOEs **for dealing with significant deficiencies** in validation and verification were identified as a topic where further technical information is needed. These and other topics have been addressed procedurally by requesting a technical paper from the Secretariat (see box 2).

What was not agreed

Perhaps as insightful as the agreements adopted in Warsaw are the issues which did not make it into the decision texts yet were discussed at length in the



contact groups, many of them representative of the greater development perspectives that Parties have for the CDM. Among the most debated issues were:

- The European Union and Switzerland brought the concept of **supplementarity or net mitigation** into the debate, arguing that the CDM should move beyond pure offsetting and promote positive benefits for the climate. While most Parties agreed with the broader applicability of the CDM as a tool beyond offsetting purposes, there was resistance by many developing countries to include additional requirements in the rules of the CDM or add to the complexity of the mechanism. They argued that net mitigation could be achieved through other means, for example by way of voluntary cancellations for which the CDM Executive Board has lately paved the way.
- **Voluntary cancellation** was itself a topic that received much attention but was discarded from the final text. This was partly due to technical complexity as Parties could not see clearly which changes to the registry systems are needed to allow all Parties to make full use of voluntary cancellations.
- Another area that was finally deleted from the text although receiving mostly endorsement was an **invitation to the Green Climate Fund (GCF) and the Global Environment Facility (GEF)** to use the CDM as a tool in their disbursement of funds.
- The African group and Brazil attempted to bring attention to **reforming the way land-use projects are treated** under the CDM. They could not, however, get sufficient traction for their proposals.
- Norway and Switzerland suggested the **exclusion of certain project categories** from the CDM, namely new coal-fired power plants without carbon capture and storage and destruction of industrial gases.
- Lastly, views also differed with regards to **additionality** where the EU failed to get support for suggestions to further strengthen the additionality tool.

The decisions

The CDM was negotiated under two separate tracks in Warsaw, resulting in two decisions of CMP 9. A co-chairs' note suggesting concrete changes to the original CDM M&P was discussed controversially but was ultimately not adopted. Both negotiation streams were facilitated by the same co-chairs and discussed many of the same topics.

Box 1: Warsaw decision texts and co-chairs note

Review of the CDM M&P:

- <http://unfccc.int/resource/docs/2013/cmp9/eng/l08.pdf>
- https://unfccc.int/files/adaptation/application/pdf/sbi39_i7_a_15nov1300_note_by_co-chairs_v2.pdf

Guidance relating to the CDM:

<http://unfccc.int/resource/docs/2013/cmp9/eng/l10.pdf>

Review of the CDM M&P

The first, negotiated under the thirty-ninth session of the Subsidiary Body for Implementation (SBI 39), is a decision on the review of the CDM M&P. Since Parties quickly realised that they would not manage to agree or even discuss all issues at stake, the decision agrees on a roadmap to continue the work through SBI 40 and SBI 41 with a view to taking a final decision in 2014 in Lima.

The decision also requests the UNFCCC Secretariat to prepare a technical paper by 19 March 2014 on a number of topics on which further information was identified as being needed (see box 2). Parties and admitted observer organizations are invited to submit their views on suggested changes to the CDM M&P to the Secretariat by 30 April 2014 taking into account the findings of the technical paper. This follows a previous round of submissions made by Parties during the first half of 2013 and a list of recommendations on changes to the CDM M&P from the CDM EB.



Box 2: Topics to be covered by the technical paper of the UNFCCC secretariat.

- Membership and composition of the CDM Executive Board
 - Liability of designated operational entities to compensate for the issuance of certified emission reductions (CERs) resulting from significant deficiencies in validation, verification and certification reports
 - Provisions for Programme of Activities (PoAs)
 - Length of the crediting period
 - Requirements for the demonstration of additionality
 - Role of designated national authorities of Annex I and non-Annex I parties
 - Simplification and streamlining of the project cycle for certain project categories.
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Annual Guidance on the CDM

The second decision, negotiated under CMP 9, sets out further guidance on issues related to the CDM and defines the work agenda of the CDM EB. This contains a variety of specific requests to Parties, the CDM EB and the Secretariat (see summary in box 3).

CDM Executive Board drives change

Further to the two negotiation streams the CDM EB presented its annual report and hosted a Questions and Answers session at CMP 9. The EB also is behind many of the individual reform suggestions that were discussed at Warsaw and has outlined several recommendations both for specific changes and fundamental reform. Pointedly, in its Management Planning for 2014 the EB formulates the vision to broaden demand for, and participation in, the CDM by a) facilitating the acceptance of CERs for compliance purposes (including consideration of how to achieve net mitigation) b) enhancing the use of CDM for voluntary cancellation and c) developing CDM as a vehicle for result-based finance.



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Box 3: Guidance relating to the CDM (abbreviated), in which the CMP...

I. General

- Welcomes the work of the CDM Executive Board;
- Expresses satisfaction with the success of the CDM;
- Expresses concern regarding the difficult market situation currently faced by CDM participants and the consequent loss of institutional capacity threatening the value of the CDM;
- Encourages parties to make greater use of the CDM.

II. Governance

- Designates as operational entities those entities that have been accredited, and provisionally designated, as operational entities by the Executive Board to carry out sector-specific validation and/or sector-specific verification functions;
- Urges the Executive Board to expedite evaluating the use of the voluntary sustainable development tool and to report on its findings to CMP 10; and;
- Requests the Executive Board to develop guiding tools to assist DNAs in monitoring the sustainable development benefits in its territory of CDM activities;
- Encourages the CDM EB to enhance its interactions with DNAs and DOEs through its existing forums.

III. Baseline and monitoring methodologies and additionality

- Requests the EB to analyse allowing the validation of monitoring plans for small-scale and microscale project activities and PoAs before their first verifications;
- Reiterates its encouragement to the EB to continue its work on the simplification and streamlining of methodologies;
- Requests the EB to analyse the thresholds for CPAs to qualify as microscale activities in PoAs;
- Requests the EB to expedite its work on the development of country-specific baseline and additionality thresholds for sectors in countries underrepresented in the CDM;
- Reiterates its request to the EB to examine alternative approaches to the demonstration of additionality;
- Confirms that after the expiry of its crediting period a project may not be re-registered;
- Recognizes that a new project activity could be registered at the same physical or geographical location;
- Requests the EB to report to CMP 10 on the implementation of the above paragraph.

IV. Registration of CDM project activities and issuance of CERs

- Requests the EB to simplify and streamline the validation process for projects deemed automatically additional;
- Requests the EB to further improve and streamline the regulations for PoAs including for those with more than one host Party;
- Requests the EB with the support of the secretariat to collaborate with the DNA Forum on making available information on practices conducted for local stakeholder consultations and to provide technical assistance to DNAs for the development of guidelines;
- Requests the EB to review the concept of materiality in the verification process and how it can be further applied in the CDM.

V. Regional and subregional distribution

- Reiterates its invitation to Parties and institutions to make voluntary contributions to the CDM loan scheme;
- Welcomes the progress made in establishing regional collaboration centres to promote the CDM in regions underrepresented in the mechanisms;
- Reiterates its request to the secretariat to continue supporting Parties underrepresented in the CDM;
- Reiterates its encouragement to DOEs to establish offices in developing countries.

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ⁱ The CDM M&P contain everything from the steps of the project cycle and the institutional architecture of the CDM to the approaches to baseline setting, monitoring and calculation of emission reductions.

ⁱⁱ The mandate was established in Montreal in 2005, where the first “Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol” (CMP 1) formally adopted the modalities and procedures (M&P) of the CDM and at the same time decided that a first review of these M&P should be carried out no later than one year after the end of the first commitment period of the Kyoto Protocol, hence in 2013.