

The Carbon Markets and Investors Association (CMIA) is an international trade association representing companies that finance, build, and support emission reduction projects across five continents, as well as service providers to liable entities under cap-and-trade schemes. Formed to represent businesses working to reduce carbon emissions through the market mechanisms of the United Nations Framework Convention on Climate Change (UNFCCC) and Kyoto Protocol, CMIA's international membership accounts for an estimated 75 per cent of the global carbon market, valued at USD 100 billion in 2008.

### Reform of the CDM at the 15th Conference of Parties in Copenhagen is essential in order to:

- Ensure greater geographical and sectoral distribution
- Achieve a meaningful scale of investments in GHG reduction activities, and
- Provide investor confidence and certainty in mitigation mechanisms now and post-2012.

### COP15 must provide an unequivocal directive to:

- Improve the operation of the CDM
- Structurally reform and improve governance of the CDM
- Expand Mechanism beyond a project-by-project approach
- Provide for the inclusion of new methodologies into the CDM

## Introduction

The CDM is currently the only mechanism creating direct financial flows into low carbon projects in developing countries as a result of demand from carbon markets in the developed world. It has been a success on many levels, not least demonstrating that **there is a vast pool of capital** which, provided with the correct institutional oversight and support, has the ability to seek out lowest-cost emissions reductions and **promote the transfer of new technologies and capacities from the developed to the developing world.**

However, the experience and observations of CMIA members under the CDM indicate clearly that the CDM has serious shortcomings, both operationally and structurally, which are restricting and beginning to dissuade investment and scale-up. This is arising from a trend to not apply existing guidance and decisions agreed in the Marrakesh Accords by the Executive Board; by Designated Operational Entities reporting negatively and/or refusing to take on projects they deem complicated; and from a reluctance to continue the 'learning by doing' approach to overcome barriers that are clearly preventing increased investment in and greater coverage of sectors by the Mechanism.

**A significant concern of the CMIA is that there is little focus in the current CMP talks and on initiatives and proposals by Parties on processes to improve the CDM.** The interest in new mechanisms, public and private, to channel funds into and stimulate the expansion of low-carbon infrastructure in developing countries should not obscure or supplant the need to reform the operation and oversight of the CDM. Reform of the CDM, encouraging the development of and learning from new approaches, both on the ground and within institutions, is also crucial in respect of the design of new mitigation mechanisms.

**A strong statement is needed from CMP that the CDM be reformed. CMP decisions must be rigorously upheld and a focus placed on taking additional decisions to ensure the CDM remains operational and effective.**

**In the text below, CMIA proposes a number of remedies open to Parties to address the shortcomings and to build upon the successes of the Mechanism. Chief among them must be improvements that increase investor certainty.** Moreover, Parties must affirm that CDM projects registered throughout the Kyoto budget period, and until alternative crediting mechanisms are in place, may have credits issued throughout their project periods that will count against national targets.

A reduction in these risks will spur the opening up of new sectors, so far largely untouched, and sectors that can only be opened up through carbon finance, to bring truly additional emission reductions and enhanced technology transfer and capacity-building to developing nations.

The four aforementioned sections are expanded on in the following pages.

## **1. Improve the Operation of the Clean Development Mechanism (CDM)**

CMIA submitted detailed text on the reforms needed to improve the operation of the CDM in advance of CMP14 last year and in response to the EB's call for measures to improve the efficiency of the CDM. CMIA believes that the CDM, through decisions taken at CMP and reforms, made with greater urgency at the EB level, can dramatically improve the operation of the CDM by addressing the issues under the following headings.

### **Reduce the time taken for project registration and CER issuance**

CMP14 expressed serious concern at the delays in project registration and CER issuance and requested the EB to take necessary action to improve the timeliness of the process. This has not occurred in any significant sense and in the course of 2009 has, in some cases, worsened.

CMIA believes that it is necessary to treat both the symptoms and the causes of this issue; for example, by tackling the primary reason behind the lengthy delays and unpredictability of the review processes. Currently, too many projects are sent for review. In the assessment of whether a proposed CDM project complies with the CDM rules and guidelines, each institution has a clear mandate as defined by the Marrakesh Accords, and this mandate should be respected. The DOE is accredited by the EB to ensure projects and requests for issuance meet all CDM requirements. The role of the EB is to supervise the CDM and to secure that the accredited DOEs maintain accreditation standards. While the EB retains the power to review the validation process in its entirety, it is not mandated to do so continuously on a case-by-case basis.

Currently, however, the EB performs a standard second check<sup>1</sup>. This duplicates procedures, blurs responsibilities and distorts the Mechanism as set-out in the Marrakesh Accords. By consequence, the EB is confronted with an overload of work within an existing resources constraint. This leads to bottlenecks in the registration process while project participants are left in limbo. In most cases, reviewed projects are registered once the project circumstances have been fully understood by the EB members and/or RIT, who do not have the required expertise. This occurs after clarification and further documentation is provided. The result has been a delay of several months, during which time investment may be halted, project implementation delayed, perceived risks to investors increased. Overall confidence in the investment suffers while the integrity of the CDM, for which purpose these reviews are intended, is in no way increased.

Instead of scrutinizing each individual project, the EB should generally rely on the validation results delivered by the accredited DOEs and only perform spot checks to ensure that the DOEs maintain the expected standard of work. Similarly, item two on the subject of materiality, suggests that the EB should devolve decision-making to DOEs.

### **CMIA suggests the following action points for the CMP**

#### **To address delays in the validation / verification procedure:**

- Require the EB to establish a standard grace period for all new guidance, rules and procedures. This period should allow projects already in the CDM pipeline (PDDs hosted for global stakeholder consultation) to be processed, since the investment rationales for these projects are based on existing CDM rules and procedures at the time of evaluation. Retroactive changes often lead to the abandonment of those projects and investment. It must be re-iterated that no new guidance will be applied retroactively.
- Require that any project-related decisions impacting other projects arising as a result of the review process should immediately (within one month) be integrated into existing rules, guidelines, and procedures and that an appropriate grace period be applied. CMIA suggests a standard grace period for new guidance, and no grace period for clarifications to existing guidance.
- Prevent penalizing project participants when DOEs are suspended. Continuity of validation or verification of projects needs to be assured.
- Provide a graduated approach to DOE suspension to provide project participants, other DOEs, and the wider market with sufficient notice, and the ability to react to the likelihood that a DOE will be suspended or restricted in some way in the near future. The current procedure unfairly penalises investors and reflects badly on the CDM process. For example, the suspension of all of SGS's activities means that a significant number of projects are unable to issue CERs and a large number are stuck in registration. These projects have been implemented in good faith with investments from the private sector, yet these investments are now stranded for an indefinite period of time.
- Encourage the development of new approaches to additionality.

<sup>1</sup> See, for example, paragraph 21 and 23 the Annex 58 to EB 46, Terms of Reference and Procedure for a Registration and Issuance Team (RIT).

**To address delays in the completeness check process:**

- Require the EB to formally adopt timelines and procedures for completeness check completion. It is suggested that a completeness check should begin within five days of payment being received/proof of payment being uploaded. If exceeded, the Secretariat will provide a written justification explaining the reasons for the delay. Delays should be considered and acted upon at each EB meeting.
- Set a maximum timeline for registration of CDM projects so that any delays in completeness checks are deducted from the eight week period allocated for registration requests (four weeks for small scale projects). It is proposed that a maximum period should be three months.
- Request that the EB consider outsourcing administrative functions to a third-party body accountable to the EB and subject to strict performance contracts.
- Request that the EB allow greater flexibility in the payment process. For instance, to reduce the time taken for issuance, participants could pre-pay issuance fees. Automated invoices could be issued immediately after a project is uploaded for registration.

**To address delays in the review process:**

- Require the EB – via accreditation, spot-checking, and review of accreditation procedures<sup>2</sup>, that DOEs remain in compliance with the accreditation mandate, and require that individual project reviews are the exception.
- Urge the EB to deal with relatively simple procedures and checks via the completeness check rather than the review process. For example, the Secretariat should be able to assess whether a project complies with a methodology during the completeness check, rather than it being subjected to review.
- Mandate the EB to agree to timelines for all DOE / PP responses to requests for review, as well as review. This would require the EB to adopt at least one of the following measures:
  - Hold EB meetings no less than once a month
  - Consider all responses submitted up to the date of an EB meeting at that meeting (to replace the current two week advance deadline)
  - Make and communicate decisions on projects outside of EB meetings by electronic means
  - Delegate authority of decision making to one or more of:
    - The Secretariat
    - A nominated sub-group of the EB which includes, at a minimum, representatives from the host country
    - A third-party body accountable to the EB and subject to strict performance contracts.
- Define the crediting start date for a project activity to eight weeks (or four weeks for small scale projects) after the receipt by the EB of the request for registration. This would imply that the time taken to process requests for review and corrections is not added to the date of registration.
- Request that the EB to review the timeline for responses to review questions. Five days is insufficient and should be extended to ten days. In the process of a review, the project participant defending the PDD will often be required to seek additional evidence and this must be both validated and certified by the DOE. Certain DOEs require two days for certification, thus limiting the ability of the project participant to source and present a clear response. It is likewise important to consider that if the review schedule corresponds to a national holiday, new information will be impossible to source. Ten days would still be a tight timeline, but would be far more manageable for both project participants and DOEs.

**Address concerns on materiality**

Materiality can be considered in two forms: quantitative and qualitative.

**Quantitative materiality** relates to establishing a materiality threshold for the emission reduction calculations themselves. This concept of materiality is well understood and practically applied in both financial and emissions accounting and in some of the EB's own guidance in the current Validation and Verification Manual on methodological applicability.

**Qualitative materiality** also needs to be established when referring to more descriptive elements of a PDD or monitoring plan. A bottom-up approach should be applied to design changes after project registration. Such changes are often outside the control of project participants, and are not foreseen or foreseeable at the time of either project development or submission for registration. A PDD is written during the design and feasibility stages and registration will normally occur

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<sup>2</sup> Decision -/CMP.1, Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol, paragraph 20.

before commissioning. Changes to meters, equipment, and the like, sometimes occur as part of the construction and commissioning process and this should be accommodated within the EB-mandated procedures. Although design changes are an inevitable part of project development, environmental integrity can still be safeguarded while adopting a more business-friendly approach; for example by means of a bottom-up positive list of design changes that can be scrutinized and "acknowledged" by the verifying DOE.

**CMIA suggests that the CMP the EB to develop an approach towards materiality. The EB should proceed to develop guidance, to be interpreted by DOEs, on both quantitative and qualitative materiality.**

- As with financial auditing, the determination of materiality would be a matter of professional judgment of the DOE following appropriate guidance from the EB.
- The EB could initially adopt a bottom-up approach for recurring issues to establish a materiality threshold. For instance, so long as the new circumstances remain in line with relevant national regulations and the CDM methodology, the EB could clarify that a monitoring plan revision is not necessary in the case of:
  - Change of emission factor calculation from ex-post to ex-ante
  - Meter location
  - Meter calibration
  - Meter accuracy change

### **Clarify E+ / E- guidance**

Clearly, if CDM rules and procedures were to perversely disincentivize host countries from adopting progressive policies and standards to mitigate greenhouse gas emissions it would render the Convention a failure. This is widely recognised in the existing guidance on this issue, such as EB22 Annex 3, which states that:

*"National and/or sectoral policies and circumstances are to be taken into account on the establishment of a baseline scenario, without creating perverse incentives that may impact host Parties' contributions to the ultimate objective of the Convention".*

However, the EB and the DOEs have not been consistently applying this ruling and therefore further clarification is sought.

In many developing countries, mandatory regulations have been introduced in various sectors to support national environmental and other policies after 11 November 2001. However, in many cases neither the companies affected by the regulation nor the organizations responsible for implementing them have managed to harness the capital or expertise to actualize these reductions. In these cases, the CDM is the catalyst that brings both the capital and expertise to these emission reduction projects and ensures that they are implemented.

One illustrative example of this was the adoption of mandatory regulations in China requiring the use of Coal Mine Methane (CMM). The CMM, as well as the Chinese waste sector, are good examples of sectors that have unquestionably been opened up by the CDM. The CDM brought not only finance, but international expertise on gas drainage and utilization. This has increased mine safety as well as mitigating greenhouse gas emissions. Many coal mine owners remain inexperienced in power generation technologies and are unable to implement these projects without both international technological support and carbon finance. This sector had the potential to remain a significant part of the CDM and continue to substantially reduce greenhouse gas emissions. Importantly, without the CDM it is unlikely that these projects would have occurred and more critically, it was not the intention of the Chinese Government to preclude international support in the development of these projects.

The recent questioning of tariff changes for Chinese wind projects and the impact on additionality is another example of guidance on E+/E- being applied inconsistently. This arbitrariness is confusing investors.

**CMIA urges the CMP to require the EB to:**

- Provide clear guidance for DOEs on the validation of the E+E- rule within the context of the Validation and Verification Manual. This should not only clarify existing guidance, but stipulate how DOEs should determine what a national or sectoral policy or regulation is.
- Develop guidance on what constitutes a sectoral or national policy or measure which would include the opinion of the host country DNA.

CMIA acknowledges that new mechanisms may provide additional incentives and financing means for developing countries to adopt pro-low carbon policies and/or restrict subsidies to activities which increase emissions. If this occurs, there will be a need to reflect this in E+/E- guidance. Clearly, policies which a host-country pursues or measures it takes to fulfil international obligations (and which may be financed by other means) should not also receive support through the CDM.

However, it is of crucial importance that:

- Investors are not penalised retrospectively for supporting policies and regulations, for instance by shortening or revising the crediting period of an existing CDM project, and
- There is a smooth transition period, encouraging private investors to continue to commit finance to sectors which may be subject to increased regulation and incentives. That is, the work facilitated by the CDM in these sectors is not stranded by a rapid removal of carbon market incentives.

**CMIA proposes the following action points be considered:**

- In certain countries, for projects registered after 1 January 2012, the evolution of domestic policies should be taken into account when developing standardized baselines.
- The treatment of the E+/E- rule comprises the discussion on scaling-up CDM, since both lead to the fact that new approaches to additionality in order to scale-up and maintain the environmental integrity of the system are not needed.
- The evolution of domestic policies should be considered with the development of methodologies.
- In certain countries and sectors, projects registered under existing methodologies would need to be adjusted to reflect the existence of domestic policies at the time of the renewal of their crediting period.

## **2. Structurally reform and improve governance of the CDM**

### **Institute a formal appeal and review process**

The absence of a formal review and appeal process serves to undermine the confidence of investors in this market and limits investment. Certain recent decisions have appeared inconsistent. There are also fears that EB members may be in a situation of conflict with respect to particular projects or project categories. A review process should be established to enable project participants to appeal EB decisions. In order to award basic procedural rights to affected legal entities, we recommend the establishment of hearings and a formal appeal process. A review process would provide affected project participants with the ability to appeal decisions of the EB.

The decisions of the appeal process would have to be final. The appellate body would be supported in its activities by the UNFCCC Secretariat. Its proceedings as well as the considerations for any judgment would be publicly available.

The Review Board (RB) would be independent of the EB and would be appointed by the CMP. Appeals would be granted based on application to the RB only after projects were formally rejected for registration or CER issuance. Applications to the RB must explicitly explain why the project participants believe the reasons for rejection outlined in the review are unjustified.

### **Rules-based approach to decision making and the strengthening of accountability**

The EB should guide project participants and DOEs and issue final decisions on projects. The consideration of issues of technical detail diverts attention and decreases the efficiency of the system. The EB should reconsider the work delegated to the Secretariat in the process of request for registration and issuance with the aim of speeding up and ensuring well-considered and consistent technical assessment and impartiality.

Currently, review procedures are misused, creating an unnecessary burden for the EB and Secretariat. Key to addressing this is for the EB to delegate project by project assessments to the DOEs and to enforce the proper functioning of the DOEs through the accreditation procedures, not through project reviews. Project developers/projects should not get caught in between the EB and DOEs in their discussions on specific project cases.

In the assessment whether a proposed CDM project complies with the CDM rules and guidelines, each institution has a clear mandate as defined by the Marrakesh Accords and this mandate should be respected. The DOE is accredited by the EB to check whether projects and requests for issuance meet all CDM requirements. While the EB retains the power to review the whole validation process, it is not mandated to do so continuously and in each and every case. Currently, however, the EB performs a standard second check<sup>3</sup>. This duplicates procedures, blurs responsibilities and distorts the mechanism set out in the Marrakesh Accords. As a consequence, the EB is confronted with an overload of work which it is ill equipped to tackle and which leads to bottlenecks in the registration process, while project participants are left in limbo. Rather than scrutinising each individual project, the EB should generally rely on the validation results delivered by the accredited DOEs and only perform spot checks to ensure that the DOEs maintain the standard of work required.

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<sup>3</sup> See, for example, paragraph 21 and 23 the Annex 58 to EB 46, Terms of Reference and Procedure for a Registration and Issuance Team (RIT).

### **Increase the transparency, reliability and predictability of the Executive Board**

Decision 2/CMP4 requested the EB, as soon as possible, to take steps to improve the transparency and consistency of its decision making. Some improvements have been made, such as increased engagement between EB members and project stakeholders, but much remains to be done. As an example, answers to reviews are still not published.

#### **CMIA requests the CMP to:**

- Request that the EB seek out financial and technical experts to assist in overseeing financial additionality and technical issues respectively, to ensure that CDM guidance is consistent with that of standard corporate finance theory and practice and engineering principles and norms.
- Request the EB to identify key personnel involved in a project's progress through the EB and UNFCCC process. Responsible Secretariat staff should be disclosed in the same manner as names of panels and EB members. Alternatively, the EB could provide an *organigram* that names the section managers only.
- Request that the EB and the Secretariat establish clear responsibilities and binding timelines for its activities. Moreover, that the EB add to its communiqués, the reasons for decisions, and allow project participants to react on such decision within a given timeframe.
- Rule that the EB should be a full-time professional body. The structure of a committee with part-time representatives with bimonthly meetings is insufficient for the current size of the market. Staffing the EB instead with full-time professional staff would also eliminate conflict of interests, since individuals would no longer serve several agendas and interests in parallel.
- Rule that EB meetings are held in open session. Where they are not, an explanation should be provided. Whilst the EB claims a commitment to transparency, it is now the norm that more than 50 per cent of EB meetings are held in closed sessions. The decisions from these closed sessions are presented with little or no explanation as to their rationale. The absence of transparency surrounding alterations in regulations and associated processes have made the outcome of CDM project registration unpredictable, potentially delaying the point at which a project can be credited and hence reducing the volume of CERs a project can issue.
- Rule that individual project reviews should be the exception and that through the accreditation, spot-checking and accreditation review procedures DOEs remain in compliance with their accreditation. For example, the Accreditation Panel (AP) needs to develop better guidance on auditor qualifications aligned with international standards and the EB should incorporate International Accreditation Forum Guidance to further align the CDM with international best practice.

#### **CMIA urges the EB to prioritize the following issues:**

- The use of precedent and established cases to ensure that guidance provided is consistent, unambiguous, and clear. For instance, a request for deviation approved for a particular project should be accepted for other projects with similar scenarios without the supplementary need for deviation approval.
- Issues accepted by CDM EB following request for review / review on a project should form precedent for other projects. By contrast, rejections should not form precedent in order for there to remain room for improvement to the CDM.
- A request for review or review should include a written report from the RIT to explain the background and reasoning for the questions. This is done internally to provide recommendations to the EB members, and should be made public.
- The EB should provide detailed reasoning as to why the project participant or DOE has failed to answer the questions raised by the EB, and thus why the project does not meet the requirements of the CMP or the EB.
- The project participant should have the right to raise questions with the EB in the capacity of observer at the EB meetings, prior to the decision to accept or reject a project for registration.
- Any decisions made on project-specific cases which are applicable in a wider context should be immediately translated into general guidance to be added to the relevant EB guidance text, ideally during the same EB meeting.
- Changes to procedures and rules should be undertaken only after consultation with project participants. The Project Developer Forum would provide a means to facilitate this dialogue. Changes should not be applied retroactively to projects using the existing rules already submitted for registration and should only be introduced after a 'grace' period for projects based on existing rules.

### 3. Expand the Mechanism beyond a project-by-project approach

#### Develop multi-project baselines

An effective means to scale-up CDM is to encourage the use of multi-project baselines for project assessment whilst maintaining direct crediting of CERs at the installation level. This would allow wider and more certain access to the CDM. Likewise, the establishment of national, regional and global baselines based on objective and transparent criteria – as opposed to project by project determinations – would encourage the expansion of the CDM to new and underserved sectors and regions.

Multi-project baselines:

- Lower transaction costs by removing the need to create and justify baselines on a project-by-project basis
- Provide greater certainty to project participants by establishing common, accessible criteria on which to base investment decisions
- Improve environmental integrity and certainty
- Continuously encourage the adoption of new, cleaner technologies and processes by providing strong incentives for technology transfer and early-adoption, and
- Expand sectoral and geographical coverage by creating a common incentive platform within which project developers can rely on carbon revenues from the outset of development.

Multi-project baselines may not be appropriate for certain sectors and countries, hence it is important to maintain the advent of a flexible project-by-project approach. Multi-project baselines should be applied according to one of two approaches.

#### Global or regional standardized baselines

To be managed by the Methodology Panel or a new body established under the UNFCCC in consultation with the host-country, DNAs, and project participants. Consultations should occur to ensure that sectors are selected in accordance with pre-determined criteria, such as project size, replicability, and sustainable development, among others. The determined standardized baselines should be approved by the EB to ensure compliance with guidance provided by the CMP.

#### Country-specific standardized baselines

These should be proposed by either project participants or host-country DNAs and must be approved by both the host-country DNA and the EB. Country-specific baselines may be applied whether or not there is a global baseline available and should dynamically reflect national circumstances and policies according to decisions made at the CMP level.

CMIA envisages that country-specific baselines would be utilized in accordance with global framework methodologies. Methodologies would thus be common, but baselines would differ.

A successful synergy of these two approaches would ensure greater access for a broader range of developing countries, as well as provide the opportunity for higher accuracy in the host-countries with established CDM number of activities.

**CMIA recommends that guidance from the EB should sanction the use of the processes and procedures to determine baselines. These should include:**

- Reference to emissions from similar project activities undertaken in the previous five years in similar economic, social, environmental and technological circumstances.
- Reference to current common practice in the sector in specific countries or regions.

**To encourage the development of multi-project baselines recommends that the CMP:**

- Require the EB to accept consultation on means to improve the adoption of multi-project baselines, including means of modifying existing methodologies and tools.
- Establish rules to guide host-country DNAs in approving country specific baselines.
- Establish rules and procedures for the EB to determine global baselines. As a first step, CMIA suggests that SBSTA be asked to review appropriate project types and methods.
- Require the EB to establish parameters and procedures for optional use by project participants and DOEs.

#### Support the institution of Positive Lists

CMIA supports the use of positive lists for those technologies and projects types that would automatically qualify under the CDM and are therefore additional. This would be an extension of the multi-project baseline approach and would dramatically lower transaction costs and regulatory risks and would thereby mobilize significantly more robust investor capital.

**CMIA urges the CMP to request that SBSTA prepare recommendations on the technologies and processes which would be suitable for inclusion on positive lists.**

Positive lists should include:

- Renewable technologies that cannot be implemented on a large scale without government support and intervention
- The implementation of small-scale energy efficiency measures
- Technologies which face major barriers to deployment due to, for instance, lack of access or awareness.

#### **Increase certainty and streamline the operation of Programmatic CDM**

Programmatic CDM or, Programme of Activities (PoA) was designed to provide a framework to reduce transaction costs and assist in the implementation of large-scale but dispersed activities (including those implemented at a household level) that remain underrepresented in the CDM. It was also designed to provide a means of increasing geographical and regional distribution of projects, thereby bringing CDM to Least Developed Countries (LDCs) and scaling up investments in the Mechanism by speeding up the process for inclusion of PoA activities into larger, dispersed CDM activities.

The lessons from programmatic CDM could lay the groundwork for developing country NAMAs and for the transition to new mechanisms post 2012.

However, it has taken a long time for PoAs to develop. PoA guidance and procedures were introduced in August 2007 and the first PoA was registered in September 2009, two years later. At the time of writing, only fourteen PoAs are at the validation stage. This record discourages potential private sector investment in PoAs. CMIA strongly believes that more needs to be done by the CMP and EB to enable the speedy development of PoA projects.

#### **CMIA strongly urges the CMP to:**

- Require the EB to adopt specific timelines for the registration of PoAs. PoAs should not remain in the CDM pipeline for longer than a year without being processed for registration.
- CMIA recommends deleting the validator's liability from the PoA guidelines and that the risk of erroneous inclusion of CPAs, or individual units within CPAs, are mitigated through the following measures:
  - Project owner should provide proof of a CPA's existence to the validator at time of implementation. This would exclude the risk that project participants misinform, conceal non-compliance, or inflate the amount of CERs generated by the project.
  - Not implementing punitive measures on a complete CPA, but instead, correcting erroneous units or non-performance of units during the verification stage.
  - Treating willful attempts to inflate PoAs in an equivalent manner to fraud under the CDM.
- Require DNAs be ready to provide a first-instance approval at the country level for PoAs and mandate that this initial approval is sufficient for subsequent CPAs.
- In order for PoA projects to be implemented in a wide range of countries, require that PoA expansion into new geographical regions would not require its re-registration, but only a Letter of Approval from the new-host country at the time of Programme expansion.

#### **4. Provide for the inclusion of new methodologies into the CDM**

##### **Land-Use, Land-Use Change and Forestry (LULUCF and REDD+)**

- Eligible LULUCF activities under the CDM are currently limited. These should be expanded to include REDD+ (Avoided Degradation, Deforestation and Sustainable Forest Management).
- The current tCER / ICER crediting arrangement has failed to attract investment into LULUCF projects as these projects are impermanent and inferior to other project types. To safeguard the permanence of emissions reductions and provide clarity to investors and fungibility with other CERs, the tCER and ICER arrangement should be replaced by a risk buffer and insurance mechanism.

**A CMIA Policy Paper detailing REDD principles as relating to its inclusion in an international agreement is available by request. Please contact Alexandra Galin.**

### **Carbon Capture and Storage (CCS) technologies**

CCS activities should be permitted under the CDM as eligible project activities. Many of the outstanding methodological issues have been addressed by the recent CCS Experts Report to the EB<sup>4</sup>. The report highlights that many of the concerns over monitoring and verification, project boundaries and environmental impacts have been addressed by Parties to the Convention or have been explicitly tackled and addressed in the EU's CCS Directive.

Moreover, an extensive amount of work has already been undertaken on the issue of accounting in CCS by the SBSTA. The Experts Report cites previous research undertaken by the International Energy Agency Greenhouse Gas Research Programme (IEAGHG), which demonstrates that inclusions of CCS will not have a large impact on the CER market in the short and medium term. Only certain CCS projects are likely to be economically viable under the CDM, mostly in the oil and gas sector, and these will not generate a large enough volume of CERs to distort the market.

CMIA notes that many CCS projects will likely require additional public sector funding, especially in the early stages of technology development and demonstration. This support should not result in CCS projects being approved as CDM projects at the expense of other, lower-cost options, which would have been more attractive to project developers in the absence of the public sector funding. In other words, technology which receives direct support through non-market means should be prejudiced under the CDM as is the case at the moment.

### **For more information, or for a one-page document summarizing the above, please contact:**

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<sup>4</sup> <http://cdm.unfccc.int/EB/049/eb49annagan4.pdf>