

PROJECT DEVELOPER FORUM

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To cdm-info@unfccc.int
From leo.perkowski@pd-forum.net
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Subject **Progress on Decision 2/CMP.5 related to CDM**

VICE CHAIRMAN

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Honourable Members of the CDM Executive Board,

Decision 2/CMP.5 mandates the Executive Board to carry out CDM reform in several administrative and operational areas. As practitioners of the CDM on the ground PD Forum members have monitored the actions taken by the EB and the UNFCCC Secretariat over the year. Our members participated in numerous events and provided consolidated input to the process, including over 30 unsolicited letters and 12 submissions to formal calls for input.

Feedback is key for any development process. With this in mind we want to share our main observations of both the process and the progress with the CMP reform mandate.

Our assessment is based on a survey conducted amongst our members, who represent 42% of CDM registered projects and 45% of all issuances. We asked whether members felt each issue had been resolved and/or met their expectations, or remained in default. The comments we received reflected that it had been our members' hope that the CMP.5 decisions be the catalyst for significant changes and that CDM reform would progress markedly in 2010. Members reported that in several instances, the EB and Secretariat have made progress on various fronts simultaneously. Almost unanimously, however, PD Forum members sought greater transparency, consistency and efficiency – ingredients needed to foster investment in any regime that is driven by regulatory procedures. Despite achievements, deep concern continues to exist on individual reform topics that have yet to be addressed, have not proceeded fast enough, or have not been executed in a manner that would support CDM processes that are efficient and predictable enough to attract private capital to the global carbon market in the long term. And without a long term framework to encourage private sector low carbon finance engagement, goals on mitigation and adaptation will not be met.

We hope that this analysis can help you and Parties to improve and really reform the CDM in 2011 – its penultimate year of operation under the first commitment period of the Kyoto Protocol. Members of PD Forum are always available to provide further input in the highly challenging and nuanced area of the CDM.

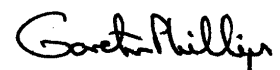
Sincerely,



Martin Enderlin
Chairman



Leo S. Perkowski
Co Vice Chairman



Gareth Phillips
Co Vice Chairman

Attachment:

- Summary of the progress on 2/CMP.5 decisions

Attachment: Summary of the progress on 2/CMP.5 decisions

Subject Area	PD Forum Comments and Recommendations
I. General	
3. (Urges) Urged EB to comply with internal timelines	<p>Comment</p> <ul style="list-style-type: none"> • Most areas that must adhere to a timeline standard <u>continue to be in default</u> including registrations and issuances, (completeness checks, information & reporting checks), requests for review, consideration of new methodologies, requests for revision and clarifications, etc • Considerable activities have been in motion for months but, little, if no relief has been noticed until just in the past two weeks <p>Recommendation</p> <ul style="list-style-type: none"> • For improved planning, coordinate periodic forecasting of issuances with stakeholders • Implement proposal to clarify minor issues within 24h in direct communication – as discussed during the EB 57 • Eliminate “restart” clause for minor CC issues
5. (Requests) Requested EB make further improvements and reform of CDM	<p>Comment</p> <ul style="list-style-type: none"> • Continued attempts have been made to make operations and processes more efficient • Few private sector recommendations have been adopted - McKinsey report, while highly publicized, has had limited effect in ensuring tasks are done by appropriate agencies. To the contrary, the Secretariat, on direction from the EB, has continued to build up staff to perform work which should be accomplished by other stakeholders • Absence of direct information exchange between the secretariat and PPs/DOEs still hampers fast and practical solving of minor issues • The alleged poor quality of submissions partly stems from the lack of unified/consistent guidelines and the above mentioned poor/lacking communication between DOEs and EB <p>Recommendation</p> <ul style="list-style-type: none"> • Mutual expectations should be laid open, especially in order to enhance the trust of the Secretariat in the DOEs’ work • Project developers should be given support to improve by learning and best-practice dissemination • Following the McKinsey Report, new procedures transfer the technical project assessment from the Board to the Secretariat and from the Secretariat to the DOEs
II. Governance	
7. (Requests) Transparency consistency and impartiality	<p>Comment</p> <ul style="list-style-type: none"> • Although requested by CMP.5, decisions relating to project activities are not explained in publically available documents • The draft review procedures are bereft of a requirement to explain actions, contradicting the designated aim to provide “lessons learned”, that help to ensure high quality submissions • With policy related matters, stringent rationale is not displayed, e.g. national policies in the context of Renewable Energy (RE) projects in China and the concept of E-/E+. Nearly all discussions took place in closed sessions • Closed EB sessions hamper transparency, and inconsistent decision-making flattens the collective learning curve <p>Recommendation</p> <ul style="list-style-type: none"> • Justification on project specific decisions must be made public in order to disseminate knowledge among PPs and steepen the learning curve. In addition, EB decision making should be more consistent • The intention of the CDM to keep projects ‘simple’ should be pursued • The disclosure of the list of wind/hydro tariffs for some Provinces in China is regarded as a positive step but steps must be taken to ensure accuracy of data

Subject Area	PD Forum Comments and Recommendations
<p>8. (Requests) Enhanced communication; report to CMP6</p>	<p>Comment</p> <ul style="list-style-type: none"> The EB has linked the issue of project specific communication questions to the new review procedures - the new review procedures foresee written communication with DOEs and PPs only once at the beginning of the process Informal discussions indicate the Secretariat is envisaging some form of online interface for communication with stakeholders but details are not yet available In June and October 2010, the Secretariat sponsored formally sanctioned CDM Roundtable meetings (CDM RT). The meetings are open to a limited number of stakeholders, normally industry group representatives and NGOs, but two meetings in a 12-month period are not sufficient to allow varied participation and constructive feedback from global stakeholders Draft modalities for direct communication with stakeholders have not yet been published and we have the perception that there may be confusion on actual expectations in such modalities <p>Recommendation</p> <ul style="list-style-type: none"> We strongly recommend additional meetings be held and in different geographical locations such as the proposed China location that was ultimately relocated to Bonn Project Participants seek the ability to have open, on the record, verbal communications with the regulator about issues solely related to their projects. We see this as a constructive method to increase efficiency and enhance understanding and trust Discussions on individual projects should be possible, and less formal procedures be pushed forward in this regard. This issue is regarded as a crucial obstacle for other possible improvements, e.g. regarding timelines and transparency of decision making The PD Forum has consistently stressed that improving the communication between the Project Participants and the EB/Secretariat is a key element to overcoming many of the current inefficiencies. It has called for clear and direct communication with project participants to smooth validation and verification activities and subsequently reduce requests for reviews and reviews. Concrete proposals were provided in unsolicited letters to the EB
<p>9-12.</p> <ul style="list-style-type: none"> (Requests) Consideration of host country laws & regulations; (AF) Host country prerogative to design policies to promote low GHG fuels or technologies; (Requests) Avoidance of perverse incentives related to item 10; (Requests) Guidance on treatment of national policies 	<p>Comment</p> <ul style="list-style-type: none"> Close to 200 renewable energy projects have suffered rejections, issuance delays and severe uncertainties due to differing interpretations of existing guidance, yet the guidance remains unclear Despite embarking on drafting guidelines, and publishing wind/hydro tariffs for some Provinces in China (positive step), after a series of closed sessions the board decided to stop the effort hence leaving project developers without clear guidance The Secretariat released a highest tariffs list even though the concept of “the highest historical tariff” is not part of the additionality assessment. The approach applied was sketchy, neglectful of host country laws and regulations, and remains piece meal <p>Recommendation</p> <ul style="list-style-type: none"> In the absence of an accepted and comprehensive framework, when reasonable suspicion exists that a specific policy in a specific country leads to perverse incentives, we suggest policy issues be dealt with via a two-way dialogue between the relevant DNA and the EB/Secretariat involving other stakeholders at the DNA’s request. This would address the issue at the policy level rather than through project-by-project reviews The EB should include comprehensive and unambiguous guidance for the treatment of feed-in tariffs for renewable energy project activities, as well as the treatment of E+/E- policies in the determination of the additionality of such projects. In doing so the PD Forum advocates a proactive and participatory approach to guarantee the broader acceptance (and understanding) required in this sensitive issue Guidelines on treatment of tariffs should acknowledge that in a large country, such as China and India, feed-in tariffs show variations in time as well as geographic application, and these differences are due to a wide range of variables relevant to the determination of the tariff. Rules and guidance should be universal but discussion should be technology and country specific
<p>13-14.</p> <ul style="list-style-type: none"> (Acknowledges) EB Code of Conduct (Requests) EB membership ToRs 	<p>Comment</p> <ul style="list-style-type: none"> Members appear to follow the code of conduct with perhaps one exception, item 7, transparency with stakeholders <p>Recommendation</p> <ul style="list-style-type: none"> We fully support the establishment and adherence to a formal code of conduct Member Terms of Reference (ToRs) were considered at the EB57 and we support the proposal recommended for approval by the upcoming CMP

Subject Area	PD Forum Comments and Recommendations
15. (Requests) Publication of EB member CVs and conflict of interest statements	<p>Comment</p> <ul style="list-style-type: none"> The EB member biographies are publically available but are very brief <p>Recommendation</p> <ul style="list-style-type: none"> The PD Forum would have expected, and highly suggests, the EB members provide more comprehensive documentation on their background than the brief statements provided
III. Accreditation	
<p>16-21.</p> <ul style="list-style-type: none"> (Encourages) Develop DOEs and protect PAs from undue prejudice; (Reiterates Request) Monitoring DOE performance and improvement system; report to CMP6; (Requests) Access to information on DOE performance; (Requests) Increase capacity and improve performance of DOE (Requests) DOE activities summary feedback to Secretariat (Requests) Publication of consolidation of Item 20 	<p>Comment</p> <ul style="list-style-type: none"> Although DOEs were provided training on the VVM, the annual joint workshop was postponed and not rescheduled From the PD perspective, this is an extremely important issue as about 50% of project documentation is found incomplete for issues that could have and/or should have been identified by DOEs A system promoting improved levels of training for auditors involved in validation and verification activities has not been implemented The EB implemented a new accreditation process that has resulted in an increase in the numbers of DOEs, especially DOEs located in host countries. However without the system in requests 17 & 18, it is difficult to gauge performance amongst DOEs PPs are unable to assess if a spot check is likely to result in a suspension and there is no indication that the Board is considering the issue of preventing unjust treatment of projects put forward by suspended DOEs Since Jan 1 2010, the EB has been collecting the weighted rates of request for review on "Requests for Registration and Issuances" submitted by each DOE. However, other criteria for monitoring DOE performance have not been published, nor have any results of the monitoring activities DOE performance information is not publically available. However, in EB57 the Board adopted the reporting format that will be used to publish DOE performance. The report, however, does not assist in the selection of well performing DOEs. Rather, it presents data already available from public sources such as the Risoe CDM Pipeline <p>Recommendation</p> <ul style="list-style-type: none"> Schedule and follow through with periodic training sessions. Include DOE staff from all levels of the DOE organization, i.e. management, technical review, field auditor, etc. EB should establish guidelines for minimum training of the DOE staff and monitor the qualifications of the auditors Project developers also consider the provision of swift and competent services as important measures. These parameters are missing and should be included as part of the monitoring system The EB could further improve the access to information regarding capacity and accessibility of services that is contained in the DOE's annual reports to the Board From the PP's perspective, the time taken to complete the services is an important variable in our selection of a suitable DOE. We encourage implementation of the monitoring and reporting system
<p>22. (Requests) Updating of VVM, include materiality & level of assurance; report to CMP6</p>	<p>Comment</p> <ul style="list-style-type: none"> Although a call for public input was launched at EB56, this issue remains to be resolved. There continues to be a disconnect between the EB, Secretariat, DOEs and Project Participants on the purpose of materiality and how it would be applied in reality The DOEs claim they already apply materiality or otherwise they would have to look under each and every stone prior to reaching a validation/verification decision We, along with others, feel the absence of the concept of materiality results in numerous issues being raised, with no relevance to the volume, and the needed environmental integrity, of the ER claim. As a result, all participants in the project cycle are burdened with tasks that add to the delays and transaction costs without enhancing offset quality <p>Recommendation</p> <ul style="list-style-type: none"> Apply a "common sense" approach – given the current and potential for backlogs and delays, issues that would not change the decision of the EB as regulator to register a project or issue CERs should not stop the project from being registered or receive CERs. These issues should be resolved as a FAR at the first/next issuance request We highly recommend this issue be considered as a subject for technical work shops proposed by the EB/Secretariat. PD Forum experts welcome the opportunity to participate and share their views in order to reach a common understanding on this issue

IV. Baseline and monitoring methodologies and additionality	
<p>23. (Authorizes) Development of methodologies applicable to under-represented PA types or regions</p>	<p>Comment</p> <ul style="list-style-type: none"> • The PD Forum does not find the adoption of the simplified modalities for very small-scale projects (VSSC) very relevant, as they tend to be too small to justify the transaction burden • The original intention of making small-scale projects less complex than large scale projects has not been effectively realized <ul style="list-style-type: none"> ○ The determination of the baseline remains a major obstacle in many countries potentially benefiting from the guidelines as data is very often unavailable ○ Implementing small-scale projects under the most used methodologies faces the same level of scrutiny as large-scale projects and sometimes more, as the procedures to determine additionality for small scale projects are more general and thus lack specific guidelines <p>Recommendation</p> <ul style="list-style-type: none"> • Introduce methods to reduce transaction costs without impact on environmental integrity, e.g. limiting the validation audit to a desk review – rather than conducting a field audit – would be a good first step • We suggest reconsidering the requirement of a maximum of 5% market penetration of a technology
<p>24. (Requests) Enhance objectivity and transparency in approaches for demonstration and assessment of additionality and selection of baseline scenario</p>	<p>Comment</p> <ul style="list-style-type: none"> • PD Forum members consider that progress made on the topic of enhancing the objectivity and transparency in approaches to demonstrate additionality and baseline selection has been insufficient • Actions were started, including efforts to define first of its kind (FOIK) action and guidance on the determination of the weighted average cost of capital (WACC), but neither work has been concluded despite significant inputs from PD Forum members and other stakeholders • Guidance on establishment of barriers published in 2009 is now operational but PD Forum members report numerous questions arising during the reporting and information check. This would indicate a mismatch between the interpretations of the guidance • Guidance on the treatment of feed in tariffs has still not been adopted after more than 12 months working on the issue <p>Recommendation</p> <ul style="list-style-type: none"> • Include a discussion on barriers guidance, including treatment of feed in tariffs in a technical workshop between the stakeholders to help clarify issues and interpretations
<p>25. (Requests) Development of standardized baselines taking into account national circumstances</p>	<p>Comment</p> <ul style="list-style-type: none"> • The PD Forum is not aware of significant progress by the EB on the development of standardized baselines. Two calls for input have been raised by SBSTA <p>Recommendation</p> <ul style="list-style-type: none"> • This remains a critical area for the future relevance of the CDM and PD Forum and other stakeholders are in the process of engaging with the CDM EB on this topic
<p>28. (Requests) SBSTA assessment of “forest in exhaustion”</p>	<p>Comment</p> <ul style="list-style-type: none"> • There is still a lack of consensus regarding the inclusion of forests in exhaustion in the CDM • There has been progress made by the AR WG but political consensus has not been reached <p>Recommendation</p> <ul style="list-style-type: none"> • In light of the uncertainty surrounding the subject matter, the PD Forum members do not offer any recommendations at this time
<p>29-33. Carbon Capture and Storage (CCS)</p>	<p>Comment</p> <ul style="list-style-type: none"> • It is recognized that CCS may become an important mitigation technology in the medium term. The EB has certainly taken steps to address technical issues such as leakage, non-permanence, long term accounting and liability <p>Recommendation</p> <ul style="list-style-type: none"> • An agreement on the methodological framework is still needed
<p>34. (Requests) Improve “Tool to calculate EF for an electricity system” for use in countries with little or no relevant data</p>	<p>Comment</p> <ul style="list-style-type: none"> • EB 54 requested the Meth Panel revert to the original tool and revise it to allow the use of dispatch analysis data for the ex-ante calculation of the operating margin emission factor in the simple operating margin and the simple adjusted operating margin • This added serious complications to the tool with questionable, if any, benefits in terms of environmental integrity. The Board requested the Meth Panel to recommend the final draft tool for consideration by the EB56 • Meanwhile, the proposed revision of the tool does not provide flexibility for the calculation of grid emission factors for countries with paucity of available data <p>Recommendation</p> <ul style="list-style-type: none"> • We recommend the EB take action to eliminate the complications contained within the document and release a version that is both clear and flexible enough for developing countries with little data history

<p>35. (Encourages) Include in methodologies scenario whereby emissions projected to rise due to host party circumstances</p>	<p>Comment</p> <ul style="list-style-type: none"> The issue is being considered within the framework of developing a new top-down methodology for replacing fuel-based lighting with LED systems. A call for public and expert inputs on the specific aspects of the methodology, including the suppressed demand, has been opened. This topic was considered in the context of development by bodies such as the World Bank and the UNDP. In its focus on the existing procedures under the UNFCCC the PD Forum has acknowledged the importance of properly dealing with suppressed demand under the CDM. However, it did not make an explicit input to the UNFCCC <p>Recommendation</p> <ul style="list-style-type: none"> The issue of suppressed demand should be explored in broader context and in particular for the existing methodologies
<p>V. Registration of CDM project activities and issuance of certified emission reductions</p>	
<p>36. (Requests) Revision of PoA procedures; address DOE erroneous inclusion liability</p>	<p>Comment</p> <ul style="list-style-type: none"> Today's PoA approach suffers from similar shortcomings as the normal project approach under the CDM, e.g. complex methodologies and baselines, restrictive monitoring rules, lengthy and costly validation, but also major challenges that are specific to the PoA <ul style="list-style-type: none"> The liability for erroneous inclusion of CPAs is still a major barrier towards scaling up PoAs and with them the CDM as a whole CMP5 requested the EB to define more clearly situations in which this liability will be triggered. It is imperative the EB act on this request and provide: <ul style="list-style-type: none"> an operational definition for when such liability will occur, and introduce a reasonable limitation of such liability <p>Recommendation</p> <ul style="list-style-type: none"> Practical proposals for addressing issues with PoA rules were presented to EB members and discussed during the Fourth Stakeholder Consultation EB must decide on relevant PoA guidance and procedures and set a timetable for addressing the other issues related to the PoA rules
<p>37. (Requests) Adopt and apply revised Registration, Issuance and Review Procedures</p>	<p>Comment</p> <ul style="list-style-type: none"> The EB has introduced new registration and issuance procedures, as well as review procedures. Even so, delays within the registration and issuance process continue to plague CDM with timelines frequently ignored According to the members of the EB/Secretariat the backlog will be cleared by the end of the year with the aid of supplemental resources. Although we have noted slight improvement over the past few weeks with some requests in the queue being moved up by 3-4 weeks, we remain cautiously optimistic this trend will continue The lack of predictability has increased risk and reduced confidence in CDM to a level that has made carbon finance unattractive. Many capital investors have moved on to more favourable and predictable investments and smart, dedicated individuals are beginning to exit the industry <p>Recommendation</p> <ul style="list-style-type: none"> Sustained improvement will not be realized until the EB and the Secretariat treat DOEs as part of the solution and provide the guidance, training, and support structure needed to get the job done properly Review progress made in six months to identify shortcomings and areas requiring alterations and improvements
<p>39 & 41. (Requests) Ensure revised review procedures address time to address issues, independent technical assessment, process to consider EB assessment objections, and efficient and timely R&I consideration; (Requests) Report to CMP6 on impact of revised procedures (item 39) for full adoption by CMP6</p>	<p>Comment</p> <ul style="list-style-type: none"> The EB approved, released and implemented the new review procedures in October. Therefore, it is too soon to comment on their impact A clear drawback of the procedures is the fact that they allow for only one written response to the questions raised. The PD Forum has repeatedly requested direct two-way interaction and communication between the DOE/PP and the reviewing entity. We consider that such a step would ensure and facilitate a common understanding of the issue raised before arriving at a conclusion of a review <p>Recommendation</p> <ul style="list-style-type: none"> Revise the procedure to allow direct two-way communication Review progress made in six months to identify shortcomings and areas requiring alterations and improvements

<p>42-43</p> <ul style="list-style-type: none"> • (Requests) Process for stakeholder appeal of DOE performance and/or EB rulings IAW item 39 • (Requests) Design item 42 procedures with focus on due process; report to CMP6 	<p>Comment</p> <ul style="list-style-type: none"> • The inputs from an EB 56 call for public input were discussed at EB 57 and the Board agreed on a recommendation to the CMP regarding procedure and options on how to constitute an appellate body • While the scope for appeals is limited, the PD Forum welcomes this development and is looking forward to contributing its views to the final procedure <p>Recommendation</p> <ul style="list-style-type: none"> • Continue debate on this issue until a compromise is reached that gives PPs access to an effective independent appeal process.
<p>VI. Regional and sub regional distribution and capacity-building</p>	
<p>44-46. DNA Forums activities in CDM</p>	<p>Comment</p> <ul style="list-style-type: none"> • The EB established the DNA Forum to promote cooperation and exchanges of experiences amongst DNAs in order to overcome barriers and enhance capacity <p>Recommendation</p> <ul style="list-style-type: none"> • Whilst meetings have been facilitated and organized, there is a need for transparent feedback mechanisms of DNA Forum outcomes into the CDM operational agenda
<p>47. (Decides) Defer payment of reg'n fee - w/ < 10 PAs</p>	<p>Comment</p> <ul style="list-style-type: none"> • The scheme for deferral of costs for PDD development, validation, registration and verification which works properly has the potential to unlock many projects in least developed countries and countries with low CDM activity • The procedures for the operation of a loan scheme are currently being developed by the Secretariat <p>Recommendation</p> <ul style="list-style-type: none"> • It is important to outsource the operation of the scheme to a suitable private sector partner with minimal involvement from the Secretariat , whose responsibilities are already overextended in many other areas • It is also crucial to develop simple, clear and transparent guidelines and modalities
<p>48. (Requests) Develop meths for countries with few PAs; require DOE's report on activities</p>	<p>Comment</p> <ul style="list-style-type: none"> • The first major achievement in meeting this request is the development of simplified additionality rules for very small-scale renewable energy and energy efficiency projects but further work needs to be done before these rules can be applied in full • The development of top-down methodologies is under way, but the choice of these methodologies may not necessarily reflect the market demand, particularly in underrepresented areas <p>Recommendation</p> <ul style="list-style-type: none"> • The EB has to establish the criteria for approval of the renewable energy technologies recommended as additional by the host country DNAs • The areas and the technologies of greatest market and technical potential should be identified in close consultation with stakeholders and experts • The determination of the baseline remains to be a major obstacle in many countries benefiting from the Guidelines
<p>49-51.</p> <ul style="list-style-type: none"> • (Requests) Provide loans to countries with < 10 PAs • (Decides) Loans identified in item 49 would be repaid upon 1st issuance • (Requests) Prepare guidelines for activities identified in item 49 & 50 	<p>Comment</p> <ul style="list-style-type: none"> • A lot of work is needed to develop a loan scheme and the latest status does not give hope that an efficient system will be in place soon <p>Recommendation</p> <ul style="list-style-type: none"> • Outsource operation of the scheme. The UNFCCC is already over extended in other areas and has neither the experience, nor the capacity to manage this effort. A suitable private sector partner needs to be selected who can operate the scheme effectively and efficiently • Develop simple, clear and transparent guidelines and modalities

VII. Resources for work on the clean development mechanism	
56 & 58. <ul style="list-style-type: none">• (Requests) Secretariat staffing to support management plan• (Requests) Flexible recruitment process to fill vacant positions	Comment <ul style="list-style-type: none">• The approved 2010 MAP suggests an increased capacity in resources to be able to process 1,300 submissions and increasing to an expected workload of 1,900 cases in 2011 which give promise for reducing backlog and meeting expected case demand• However, the Secretariat has faced difficulties in finding qualified staff, which raises the question what can be done to overcome this obstacle• Outsourcing and temporary employment contracts will only be able to deal with workloads during peak times, maybe even to overcome the backlog but not to deal with the generally high workload Recommendation <ul style="list-style-type: none">• The centrally planned economic approach of slowly hiring permanent UNFCCC staff instead of outsourcing workload, which can ramp up more quickly and be more flexible to changing demand, needs to be seriously considered as an alternative to hiring 30-40 new employees• Performance issues can be overcome via clear service provider TORs