

14 June 2019

Mr. Piotr Dombrowicki
Chair
Executive Board of the Clean Development Mechanism

Ms. Jane Hupe,
Deputy Director
Environment
Air Transport Bureau
International civil aviation organization (ICAO),
(transmitted via email: <jhupe@icao.int, officeenv@icao.int>)

Information to ICAO on the Clean Development Mechanism process and procedures

Dear Ms. Hupe,

On behalf of the Clean Development Mechanism (CDM) Executive Board, I wish to express that the Board took note of the progress made with respect to the work for CORSIA implementation. The Board would like to inform you that all required information pertaining to the CDM is publicly available at <https://cdm.unfccc.int/>. You may also refer to previous communications of the Board.

The CDM Executive Board looks forward to continued collaboration with ICAO.

Yours sincerely,



Piotr Dombrowicki
Chair, CDM Executive Board



Ms. Jane Hupe
Deputy Director
Environment
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International civil aviation organization (ICAO),
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Information to ICAO on the Clean Development Mechanism process and procedures

Dear Ms. Hupe,

On behalf of the Clean Development Mechanism (CDM) Executive Board, I wish to express appreciation for ICAO's engagement with the CDM in the development of CORSIA. The CDM Executive Board provides oversight to the operation of the world's largest offset mechanism. The CDM is currently the only fully operational greenhouse gas emission offset mechanism established by a multilateral environmental agreement. As a body created by and accountable to a multilateral agreement the CDM Executive Board wishes to provide, in accordance with its mandate, any assistance possible to ICAO in the development of CORSIA.

In this context the CDM Executive Board acknowledges the request sent to the UNFCCC secretariat for input to the testing of the draft emission unit eligibility criteria for CORSIA. Following careful review of the questionnaire, the CDM Executive Board considered that it would not be appropriate for the secretariat to provide direct Yes/No answers to the questions in the format requested. Nevertheless, in the spirit of cooperation, the CDM Executive Board does wish to provide information on the nature of the CDM's operations as relevant to the areas highlighted in the questionnaire as they apply in the context of the CDM.

Background to the CDM:

The CDM was established by Article 12 of the Kyoto Protocol to the United Nations Framework Convention on Climate Change. Prior to the entry into force of the Protocol, the Conference of the Parties to the Convention (COP) at its seventh session adopted the modalities and procedures for the CDM¹. The COP also adopted a related package of decisions at its seventh session to operationalize the Kyoto Protocol, these decisions included rules for the creation and use of units for compliance with the obligations established by the Protocol.

Following the entry into force of the Protocol, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) at its first session adopted the modalities and procedures for CDM as developed under the guidance of the COP.² The CMP, at its first session, also adopted related decisions on the modalities and procedures for afforestation and reforestation activities under the CDM, simplified modalities and procedures for

¹ "Decision 17/CP.7 Modalities and procedures for a clean development mechanism, as defined in Article 12 of the Kyoto Protocol" is available at: <https://unfccc.int/resource/docs/cop7/13a02.pdf#page=20>.

² "Decision 3/CMP.1 Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol" is available at: <https://unfccc.int/resource/docs/2005/cmp1/eng/08a01.pdf#page=6>.



small-scale CDM project activities and various other elements of operational guidance which had been adopted previously by the COP acting as the guiding authority of the CDM prior to the entry into force of the Kyoto Protocol.³

The CDM has been in continuous operation since 2001. At present there are over 7,800 individual project activities registered and over 310 programmes of activities registered under the CDM. Over 1.9 billion certified emission reductions have been issued for these registered projects and programmes.

Governance:

Paragraphs 2–4 of the modalities and procedures for CDM affirm the supreme authority of the CMP over the CDM as established by the Protocol. The CMP has exercised this authority through annual decisions providing guidance to the operation of the CDM. All such annual guidance decisions are available for ease of reference on the UNFCCC CDM website.⁴ Modification of the CDM modalities and procedures is the sole responsibility of the CMP. The modification of provisions related to the issuance, tracking or use of emission units created under the Kyoto Protocol is also the responsibility of the CMP.

Paragraphs 5–19 of the modalities and procedures for CDM affirm the supervisory role of the CDM Executive Board, describe the roles and functions expected of the CDM Executive Board and affirm that it operates under the authority of the CMP. The CDM Executive Board provides supervisory oversight to the operation of the CDM, namely by, *inter alia*; accrediting and provisionally designating operational entities, approving baseline and monitoring methodologies, registering project activities and authorizing the issuance of certified emission reductions (CERs). The CDM Executive Board also develops and maintains the operational standards and guidance for these various processes. Meetings of the CDM Executive Board are webcasted on the UNFCCC CDM website and reports of all meetings are made publicly available on the same website following the end of each meeting. Members of the CDM Executive Board operate within an agreed code of conduct and declare any potential conflict of interest with issues under consideration by the Board.

As a condition of registration under the CDM, all activities require approval of the host Party. The granting of such approval is the responsibility of Designated National Authorities (DNAs). This approval serves as confirmation that the proposed CDM activity supports the host Party's sustainable development. The authorities are also responsible for authorizing the participation of public and private entities in CDM activities.

Determining compliance of CDM activities with the applicable standards is the responsibility of designated operational entities (DOEs). In carrying out validation and verification activities to fulfil this responsibility, DOEs are required to comply with relevant requirements in the "CDM Validation and Verification Standard" (VVS).⁵ Furthermore, before carrying out such activities, DOEs must be accredited by the CDM Executive Board by complying with all relevant requirements in the "CDM Accreditation Standard".⁶

Development and revision of guidance on activity design and operation

With the support of its panels and working groups and the UNFCCC secretariat, the CDM Executive Board maintains standards and procedures for the design and implementation of CDM activities. To be

³ Additional COP and CMP decisions related to the CDM are available at: <http://cdm.unfccc.int/Reference/COPMOP/index.html>.

⁴ See: <https://cdm.unfccc.int/Reference/COPMOP/index.html>.

⁵ CDM Validation and Verification Standard is available at: <https://cdm.unfccc.int/Reference/Standards/index.html>.

⁶ CDM Accreditation Standard is available at: <https://cdm.unfccc.int/Reference/Standards/index.html>.



eligible for registration as a CDM activity and for issuance of CERs an activity must be designed, implemented and operated in accordance with the “CDM Project Standard” (PS)⁷ for either project activities or Programme of Activities, as appropriate, and must apply an approved baseline and monitoring methodology.⁸ A CDM activity may apply an approved standardized baseline.⁹ The PS consolidates all requirements relevant to a CDM project activity or programme of activities. Compliance with these requirements is the obligation of the participants. This standard is periodically updated by the CDM Executive Board and transitional measures are applied for activities applying older versions of the standard. All revisions are subject to a process of public consultation and all responses to calls for input are considered by the CDM Executive Board before finalizing revisions.

With respect to approved baseline and monitoring methodologies, a total of 115 methodologies are currently available for large-scale CDM activities and 97 for small-scale CDM activities¹⁰ covering 16 different sectoral scopes¹¹. Four approved baseline and monitoring methodologies are available for afforestation and reforestation activities (two each for large and small scale activities). Furthermore, 31 standardized baselines are available for CDM activities. The methodologies panel and afforestation and reforestation working group support the CDM Executive Board in considering requests for new methodologies, for revising existing methodologies and for providing clarifications to approved methodologies. If a stakeholder considers the approved methodologies unsuitable for their activity they may submit a new methodology or seek a revision to an existing methodology using the approved procedures established by the Board.¹² As with the CDM PS transitional measures are applied for activities which have already commenced validation applying older versions of a revised methodology.

A project “baseline” is defined as the “scenario that reasonably represents the anthropogenic emissions by sources of greenhouse gases that would occur in the absence of the proposed project activity”. Baselines have to be project-specific and defined in a way that CERs cannot be earned for decreases in activity levels outside the project activity or due to force majeure. Three principal approaches are available for defining a baseline:

- Existing actual or historical emissions
- Emissions from a technology that represents an economically attractive course of action, taking into account barriers to investment
- The average emissions of similar project activities undertaken in the previous five years, in similar social, economic, environmental and technological circumstances, and whose performance is among the top 20 per cent of their category.

Leakage is defined as “net change of anthropogenic emissions by sources of greenhouse gases which occurs outside the project boundary, and which is measurable and attributable to the CDM project”. Leakage emissions are deducted from the emission reductions calculated against the baseline.

The PS contains requirements for participants to undertake local stakeholder consultation and describes the scope, timing and nature of such consultations including a requirement that project participants shall consider the inputs received in such consultations and report how they have taken into account in the CDM Project Design Document (PDD). The VVS contains requirements for DOEs to undertake global stakeholder consultation and to

⁷ CDM Project Standard is available at: <https://cdm.unfccc.int/Reference/Standards/index.html>.

⁸ Approved CDM methodologies are available at: <https://cdm.unfccc.int/methodologies/index.html>.

⁹ Approved standardized baselines are available at: https://cdm.unfccc.int/methodologies/standard_base/index.html.

¹⁰ https://cdm.unfccc.int/methodologies/documentation/1803/CDM-Methodology-Booklet_fullversion_04.pdf.

¹¹ List of different sectoral scopes are available at: <https://cdm.unfccc.int/DOE/scopes.html>.

¹² Development, revision and clarification of baseline and monitoring methodologies and methodological tools available at: <https://cdm.unfccc.int/Reference/Procedures/index.html>.



take account of the issues raised during such consultation. Information on the timing of and issues raised in such consultations for each activity is made publicly available on the UNFCCC CDM website.¹³

The PS also contains requirements for participants to assess the environmental impacts, including transboundary impacts, of the proposed CDM activity. The outcome of this assessment must be made publicly available in the Project Design Document (PDD)¹⁴.

Article 12 of the Kyoto Protocol indicates that a purpose of the CDM is to contribute to the sustainable development of the host Party. The PS requires that participants describe the contribution of the proposed activity to the host Party's sustainable development. Host Party approval of the activity requires confirmation that the proposed activity contributes to the sustainable development of the Party. In addition, the Board has also developed a voluntary tool¹⁵ to assist project proponents who wish to report the sustainable development benefits.

Each approved methodology guides the project participant on which parameters to monitor by what means. Monitoring methodologies provide for the use of official statistics, expert judgement, proprietary data, IPCC, commercial and scientific literature, as appropriate, in place of direct monitoring

Unit issuance and tracking:

A CDM activity is eligible to receive CERs following verification by a DOE that the monitoring of a registered activity has been conducted in accordance with the relevant requirements in the PS, approved monitoring methodology and registered monitoring plan in the PDD. Due to the potential non-permanence of removals associated with A/R CDM activities, the CMP has provided that participants in such activities may choose to receive either temporary certified emission reductions (tCERs) or long-term certified emission reductions (ICERs). The annex to decision 5/CMP.1, section K, sub-sections 1 and 2 addresses the specific conditions which apply to the use of tCERs and ICERs under the Kyoto Protocol.

All CERs are created through being issued into the pending account of the CDM registry. The UNFCCC secretariat acts as the administrator of the CDM registry on behalf of the CDM Executive Board. Upon issuance each unit is assigned a unique serial number. This serial number indicates the type of unit (CER, tCER, ICER), the host country of the activity, a unique identifier for the activity, the commitment period of the Kyoto Protocol in which the emission reductions occurred, and a unique number attributable to that unit for that project in that commitment period. A CER (including tCER or ICER) can be transferred from the pending account of the CDM registry to a holding account in the CDM registry or to any national registry of a Party who remains eligible to participate in the CDM. The Kyoto Protocol's ITL assesses the holdings of all units in national registries and the CDM registry to ensure that each unique unit is held in only one account at a time and to ensure that units which have been cancelled or retired are not subsequently transferred from the cancellation or retirement accounts.

Retirement refers to the process of national governments demonstrating compliance with their emission limitation obligations under the Kyoto Protocol by retiring units equal to their total national emissions for a given commitment period. Cancellation refers to the process of removing a unit from further use within the Kyoto

¹³ Information on global stakeholder consultation is available at:
<https://cdm.unfccc.int/Projects/Validation/index.html> and
<https://cdm.unfccc.int/ProgrammeOfActivities/Validation/index.html>.

¹⁴ Information on local stakeholder consultation is available at:
<https://cdm.unfccc.int/Projects/Validation/index.html> and
<https://cdm.unfccc.int/ProgrammeOfActivities/Validation/index.html>.

¹⁵ Voluntary SD tool is available at <http://cdmcobenefits.unfccc.int/Pages/SD-Tool.aspx>.



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Protocol's registry systems. A unit may be cancelled voluntarily. If a CER is cancelled voluntarily within the CDM registry, the CDM registry administrator will provide an attestation of this cancellation and record that attestation of cancellation on the UNFCCC CDM website.¹⁶ National registry system administrators can also provide the same attestation of cancellation should a unit be cancelled within a national registry.

Holding accounts in the CDM Registry may only be opened in the name of public or private entities whose participation has been authorized by a DNA. The legal status of entities requesting a holding account is confirmed prior to the opening of the account via notarized Certificates of Incorporation or equivalent. Staff in the UNFCCC secretariat with involvement in decision-making processes related to CDM activities, CDM registry account or CERs are required to participate in the UN's Financial Disclosure process to avoid any potential conflict of interest.

The CDM registry complies with the data exchange standards for the registry systems under the Kyoto Protocol.¹⁷ The CDM registry is subject to regular security audits undertaken in line with UNFCCC information systems security policies.

The CDM Executive Board looks forward to continued collaboration with ICAO.

Yours sincerely,

A handwritten signature in blue ink that reads "Arthur Rolle". The signature is written in a cursive style and is enclosed in a light blue rectangular box.

Arthur Rolle
Chair, CDM Executive Board

¹⁶ Records of voluntary cancellations is available at https://cdm.unfccc.int/Registry/vc_attest/index.html

¹⁷ Data exchange standards for registry systems under the Kyoto Protocol:
https://unfccc.int/files/kyoto_protocol/registry_systems/itl/application/pdf/data_exchange_standards_for_registry_systems_under_the_kyoto_protocol.pdf.

Footnotes regarding the information provided by the CDM

- Recalling the procedures that the TAB was instructed by the ICAO Council to use as the starting point for its work, including to accommodate the administrative structures of mechanisms established under the UNFCCC and the Paris Agreement in TAB's evaluation process, the TAB agreed to publish the letters submitted by CDM Board (letter on 14 June 2019, and letter on 18 May 2018) on the website inviting public comments.
- To Note: Assembly Resolution A39-3 Paragraph 21 Decides that emissions units generated from mechanisms established under the UNFCCC and the Paris Agreement are eligible for use in CORSIA, provided that they align with decisions by the Council, with the technical contribution of CAEP, including on avoiding double counting and on eligible vintage and timeframe.