

Call for public inputs on the draft “Procedures regarding the correction of significant deficiencies and the excess issuance of CERs”

- 8 October 2010 -

CDM Watch welcomes the opportunity to provide its views to the CDM Executive Board on the draft Procedures regarding the correction of significant deficiencies and the excess issuance of CERs as well as decision 3/CMP.1, annex, paragraphs 22 and 24; and decision 3/CMP.1, annex, appendix D, paragraph 8.

CDM Watch is very concerned about the direction the CDM has taken over the past few years and presents these views in light of the risks the CDM poses to environmental integrity if CERs that do not represent real emission reductions continue to be issued. In the case of the CDM, it is important to bear in mind that it is an offsetting mechanism. This means that the emission reductions credited under the CDM entitle the buyers of the CERs to increase their domestic emissions correspondingly. The CDM in itself does not directly reduce global GHG emissions but helps to achieve a given emission reduction target at a lower cost.

Therefore it is of utmost importance that in the event of the issuance of excess CERs, either by error, negligence, or as a result of fraud, an equal amount of reduced tonnes of carbon dioxide equivalent should be transferred to a cancellation account maintained in the CDM registry by the Executive Board. CDM Watch very much welcomes the draft “Procedures regarding the correction of significant deficiencies and the excess issuance of CERs” and provides its views as follows:

(a) *Whether the draft procedure complies with the decisions of the CMP. If stakeholders consider that the provisions of the procedure do not comply with decisions of the CMP, a detailed explanation should be provided;*

CDM Watch considers that the draft procedures as prepared by the UNFCCC Secretariat comply with the decisions of the CMP and welcomes in particular:

- The reference to the “strict liability” of DOEs for the issuance of excess CERs (Art. 4)
- The clarification that “In cases where the correction has resulted in a negative validation of the project activity, the Board shall suspend the registration of the project activity to prevent the future transfer and issuance of excess CERs” (Art.37§c, emphasis added).
- The provision setting out the DOE’s obligation to transfer an “equal amount of carbon dioxide equivalents” to a cancellation account of the CDM registry in the event of its actions leading to the issuance of excess CERs (Art. 41)
- The inclusion of a provision allowing the Executive Board to “withdraw the accreditation of the DOE, and take other actions as appropriate” (Art. 42)

(b) *Specific suggested revisions to the decisions of the CMP. In particular, the provisions for identifying and correcting significant deficiencies contained in validation, verification and certification reports;*

CDM Watch notes the definition of “significant deficiency” as “a deficiency in a validation, verification, or certification report that may lead to, or may have led to, the excess issuance of CERs” (Art. 6). We fully support the provisions contained in the draft procedures regarding the consequences of “significant deficiencies” on the part of the DOE, to wit “equal amount of carbon dioxide equivalents” to a cancellation account of the CDM registry (Art. 41).

(c) *Market implications if the draft procedure was adopted. In particular, any increased costs of conducting validations and verifications, including an explanation for the opinion;*

It is in the market’s interest to ensure that measures for preventing and correcting abuse of the CDM are as robust as possible. CDM Watch believes that, by setting out in clear and unambiguous terms the

framework for identifying significant deficiencies on the part of DOEs and remedying the excess issuance of CERs, the proposed procedures will provide a good basis for restoring the credibility of the CDM and trust in project developers. This will strengthen trust in the CDM as an instrument capable of delivering real, additional and verifiable emission reductions and reassure private financial backers as to the environmental integrity of the projects they choose to invest in.

(e) Specific suggestions for what should be done in a situation where a project participant provides false or misleading information to a DOE, and that information led to the excess-issuance of CERs.

Project participants who supply false or misleading information to a DOE must be excluded from participation in the CDM (both as buyer and generator of credits). In the event that excess credits are issued as a result of a project participant's attempt to subvert the process, an equal amount of carbon dioxide equivalents should be transferred by the project participant to a cancellation account of the CDM registry.

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