Head and Members of the CDM Executive Board
Mr. Peer Stiansen
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Subject: Call for public input on "Issues included in the annotated agenda of the 73st meeting of the CDM Executive Board and its annexes"

19 May 2013

Honorable Members of the CDM Executive Board,
Dear Mr. Stiansen,

Carbon Market Watch would like to thank the CDM Executive Board for the opportunity to comment on the annotated agenda of the 73th meeting of the CDM Executive Board. Please find our comments on the following pages.

Sincerely yours,

Anja Kollmuss

1. STANDARDIZED BASELINES AND ADDITIONALITY THRESHOLDS

> **(b). Methodological standards**
> 25. ▶ ***Action*:** The Board may wish to provide feedback on the concept note on further revision of the standardized baseline regulatory framework, as contained in annex 5 to these annotations.
> 26. ▶ ***Action*:** The Board may wish to adopt the draft guideline determination of for baseline and additionality thresholds for standardized baselines using the performance-penetration approach, as contained in annex 6 to these annotations.
> 31. ▶ ***Action*:** The Board may wish to provide feedback on the concept note on development and implementation of a work programme for further standardization in the demonstration of additionality, as contained in annex 11 to these annotations.

Carbon Market Watch has made extensive comments on the Board's and the Secretariat's current approach to standardization. We ask the Board to refer to our previous submissions:

- Submission to call for input: CDM Executive Board 70th Meeting Agenda 11 Nov 2012 PDF (ENGLISH)
- Submission to call for input: CDM Project Standard (PS) 23 Oct 2012 PDF (ENGLISH)
- Submission to call for input: CDM Validation and Verification Standard (VVS) 23 Oct 2012 PDF (ENGLISH)
- Submission to call for input: Draft standard for CDM project activities using standardized baselines 12 Oct 2012 PDF (ENGLISH)
- Submission to call for input: Concept note on impact of update of standardized baselines on CDM projects 11 Oct 2012 PDF (ENGLISH)
- Submission to call for input: Draft standard for validation and verification of CDM project activities using standardized baselines 08 Oct 2012 PDF (ENGLISH)
- Submission to call for input: CDM Executive Board 69th Meeting Agenda 02 Sep 2012 PDF (ENGLISH)

Researchers and technical experts have also commented on the inadequacy of the current approaches, see for example: Standardized Baselines for the CDM – Are We on the Right Track? from November 2012.

→ Carbon Market Watch requests the Board to take the following important points into consideration when deliberating and making decisions on standardization:

- **The current approach to standardization is inadequate as it uses the same approach and performance thresholds regardless of the sector, project type, and location.**
- **The use of constant performance benchmarks over time fails to reflect ongoing or expected trends.**
- **Practical challenges abound with regard to data availability. These are not addressed sufficiently.**
- **The use of standardized baselines is to be voluntary. This means that only project developers that could achieve more credits than using a project-based baseline may choose them. Such a voluntary approach weakens the environmental integrity of the CDM.**
- **The current guidelines and rules still do not adequately require road-testing and impact assessments of proposed approaches prior to approval, in order to ensure the overall quality, practicability, effectiveness and robustness.**

All these issues need to be addressed urgently if standardized approaches are to be implemented in a conservative manner that protects the environmental integrity of the CDM.

2. NITRIC ACID PROJECTS (AM0028, AM0034, AM0051, ACM0019)

(ii). Revisions of approved methodologies and tools (large-scale)
34. ▶ ***Action*:** The Board may wish to consider the following responses to requests for revision, as referred to in the Meth Panel report. The responses are provided in table 5 in paragraph 28 of the report of the 59th meeting of the Meth Panel:
(b) To accept request AM_REV_0245 regarding ACM0019 "N2O abatement from nitric acid production"; and

35. ▶ ***Action*:** The Board may wish to approve the revisions to the following approved methodologies and tools:
(a) AM0028 "N2O destruction in the tail gas of Nitric Acid or Caprolactam Production Plants".
(b) ACM0019 "N2O abatement from nitric acid production".

36. ▶ ***Action*:** The Board may wish to consider the recommendation by the Meth Panel to withdraw the approved methodologies:
(a) AM0034 "Catalytic reduction of N2O inside the ammonia burner of nitric acid plants";
(b) AM0051 "Secondary catalytic N2O destruction in nitric acid plants".

The Meth Panel's research on N2O abatement from nitric acid production confirmed our previously voiced concerns that the current methodologies (AM0028, AM0034 and AM0051) provide a disincentive to use better performing primary catalysts. The use of less efficient primary catalysts can lead to inflated baselines which may result in the issuance of too many CERs for such projects.

In its previous recommendation for ACM0019, the Meth Panel recommended introducing the following default emission factors starting with the values of 4.4, 5.9 and 8.2 kgN2O/tHNO3 for low, medium and high pressure ammonia burners and decreasing every year by 0.2 to take into account the technological development in the sector. The new additional baseline suggestions by the Meth Panel are weaker: 5, 7 and 9 kgN2O/tHNO3 for low, medium and high pressure ammonia burners.

Although Carbon Market Watch would recommend the more stringent factors suggested earlier by the Meth panel, we also support the current Meth Panel recommendations. We believe the suggested factors would remove the perverse incentives and also reduce project transaction costs because a baseline campaign is no longer necessary when the type of primary gauze catalyst is changed. Two important comments from the Meth panel Information note on nitric acid methodologies provide further support for this decision:

> *Since ACM0019 includes a standard benchmark estimated conservatively, the above solution could result in reducing the total amount of CERs. Based on the analysis of registered CDM projects, the Meth Panel expects that about 10 per cent of the plants will be substantially affected (resulting in more than 50 per cent of reduction in emissions reduction). It should be noted that these projects may have performed a baseline campaign with very low conversion efficiency from ammonia to nitric acid (outside the normal range for the industry). Coincidentally these same projects resulted in highest baseline emission factor (up to three times above the IPCC figures).*
>
> *The Meth Panel considers that CDM benefits from adopting the proposed revised methodology ACM0019 still provides incentives to destroy N2O emitted from nitric acid plants. It is important to mention that the revision also provides benefits to the CDM project activities that are highlighted in the information note provided to the Board at EB 70, since transaction costs are expected to be reduced due to reduction in monitoring requirements, and in many cases project developers will have an incentive to adopt new and more efficient technologies for nitric acid production - this is not allowed in projects adopting AM0034 and AM0051. Finally, more consistency will ensure equitable treatment for different types of projects.*

→ Despite the fact that Carbon Market Watch believes that the more stringent baseline emission factors would be more appropriate, we recommend that the Board follow the recommendations of the Meth Panel, to revise the approved methodology AM0028 to limit its applicability to caprolactam plants, to withdraw approved methodologies AM0034 and AM0051 and to revise the methodology ACM0019 to introduce default emission factors for existing plants.

3. E+/E-

> 52. ► ***Action*:** The Board may wish to continue considering issues in relation to E+/E- policies with regard to additionality and agreed to continue its discussion on this matter at its next meeting.

The current E+/E- rules are as follows:

E+ policies: Disregard policies adopted after 1997 which "give comparative advantages to more emissions-intensive technologies or fuels over less emissions-intensive technologies or fuels" (referred to as E+ policies) in setting the baseline.

E- policies: Disregard policies and measures adopted after 2001 which "give comparative advantages to less emissions-intensive technologies over more emissions-intensive technologies" (referred to as E- policies) in setting the baseline.

This regulation aims to avoid perverse incentives for policy makers to introduce policies which increase GHG emissions (E+ policies) or not to adopt policies which lower GHG emissions (E- policies). However, the current approach needs to be reconsidered urgently for the following reasons:

- The current E- rule is likely to result in baselines that are too lenient which in turn can lead to over-crediting. It is important to weigh the potential risks from lenient baselines against perverse incentives. Carbon Market Watch believes the risk of perverse incentives in general to be lower than the risk of over-crediting due to lenient baselines. This is because E- policies usually deliver a range of benefits (e.g. economic growth, decrease air pollution, etc) It is therefore not very likely that such policies would not be put in place because of the CDM, even if E- rules were changed and E- policies included in CD baselines.

- The current E+ is ineffective: Policy makers still have perverse incentives to keep existing E+ policies and measures in place, such as fossil fuel subsidies.

➔ **Carbon Market Watch urges the Board to revise the current E+/E- rules:**

- **E- policies should be considered when setting the baseline. This would lead to more conservative baselines while the risk of perverse incentives is likely to be low for most sectors.**

- **E+ policies that have considerable impact on GHG emissions and which have high risks for perverse incentives, such as fossil fuel subsidies, should not be included in the baseline, irrespective of when they were adopted.**