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Draft annual report of the Executive Board of the clean development mechanism (2003-2004)

Summary

This annual report of the Executive Board of the clean development mechanism (CDM) to the Conference of the Parties, for consideration at its tenth session, covers activities undertaken from the end of November 2003 until early September 2004.

The report provides information on progress made towards the implementation of the CDM during its third year of operation. Such progress relates to advancements in the process leading to the registration of CDM project activities, notably regarding the accreditation and provisional designation of operational entities and the approval of new methodologies for baselines and monitoring and the consolidation of methodologies. The development of the CDM registry, required for the issuance of certified emission reductions (CERs), is a further issue of prominence. The report recommends decisions to be taken by the COP at its tenth session, such as on the designation of operational entities.

The report further informs on governance issues and measures taken to ensure the efficient, cost-effective and transparent functioning of the CDM. These include steps taken to provide improved access to information on the CDM and the decision-making processes through the UNFCCC CDM web site. Information is also provided on costs of and resources related to the administering the CDM.

The work of the CDM Executive Board from September to December 2004 will be covered in an addendum to this document. In addition, the Chair of the Board, Mr. John S. Kilani, will, at COP 10, highlight challenges and achievements during the third year of CDM operations.

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I. INTRODUCTION

A. Mandate

1. The Conference of the Parties (COP), at its seventh session, facilitated a prompt start for a clean development mechanism (CDM) by adopting decision 17/CP.7, and the annex thereto containing modalities and procedures for a CDM (hereinafter referred to as “the CDM modalities and procedures”) (FCCC/CP/2001/13/Add.2).

2. Bearing in mind paragraphs 2, 4 and 19 of decision 17/CP.7, and in accordance with the provisions of paragraphs 2 to 5 of the CDM modalities and procedures, the Executive Board of the CDM (hereinafter referred to as “Executive Board” or “Board”) shall report on its activities to each session of the COP. In exercising its authority over the CDM, the COP shall review these annual reports, provide guidance and take decisions, as appropriate. Once the Protocol has entered into force, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) will assume these functions upon having adopted draft decision -/CMP.1 (*Article 12*) and its annex, as recommended by the COP at its seventh session.

B. Scope of the report

3. This annual report by the Executive Board provides information to the COP, at its tenth session, on progress made towards the implementation of the CDM during its third year of operation and recommends decisions to be taken by the COP. It reports on governance matters, operational achievements and action taken by the Board in accordance with decisions of the COP at its seventh to ninth sessions. These are notably (i) decision 17/CP.7 and its annex containing the CDM modalities and procedures, (ii) decision 21/CP.8 and its annexes on the rules of procedure and the simplified modalities and procedures for small-scale CDM project activities, (iii) decision 18/CP.9 and its annex on procedures for review as referred to in paragraph 41 of the modalities and procedures for a CDM, and (iv) decision 19/CP.9 and its annex on modalities and procedures for afforestation and reforestation project activities under the CDM in the first commitment period of the Kyoto Protocol. In addition, the report contains information on the costs and resources for administering the CDM in the context of decision 16/CP.9 on the UNFCCC programme budget 2004-2005.

4. The annual report to the COP needs to be seen in conjunction with the detailed and current information on all CDM operations and functions which is available, throughout the year, on the UNFCCC CDM web site. Most importantly, the web site serves as the repository of decisions taken by the Board, notably on the consideration and approval of methodologies, the accreditation of operational entities, the registration of CDM project activities and the issuance of certified emission reductions (CERs). The web site allows to trace functions performed by the Board, its panels, designated operational entities, project participants, experts, the public and the secretariat. It also shows the 64 designated national authorities (DNAs) which Parties have established to date. In addition, it contains the entire range of background documentation (from COP decisions to application forms for experts) and is thus the central day-to-day information and communication point on governance and operational matters on the CDM.

5. This report, which covers the period from end of November 2003 to early September 2004, will be complemented by an addendum which will inform COP 10 on the work undertaken until early December 2004. Also, the Chair of the Board, Mr. John S. Kilani, will make a presentation to the COP when the agenda item is opened to highlight challenges and achievements during the third year of CDM operations.

C. Action to be taken by the Conference of the Parties

6. The COP, at its tenth session, may wish to take the following action¹:
- (a) In accordance with the provisions of paragraphs 3 and 4 of the CDM modalities and procedures:
 - (i) Review and take note of the annual report of the Executive Board (2003–2004);
 - (ii) Provide guidance to the Executive Board;
 - (b) [In accordance with paragraph 5 (o) of the CDM modalities and procedures, consider the annex to this report with a view to taking a decision on procedures for review as referred to in paragraph 65 of the CDM modalities and procedures;] (Note by the secretariat: this is to be added in the report or the addendum, depending on when issuance procedures are ready).
 - (c) Take a decision regarding the designation, as appropriate, of operational entities, referred to in paragraph 21 of chapter III.A. below, which were accredited and provisionally designated by the Executive Board during the reporting period.
 - (d) Reiterate the invitation to Parties to make contributions to the UNFCCC Trust Fund for Supplementary Activities to support activities relating to the prompt start of the CDM, including for the operation of the CDM registry;
7. In addition, in accordance with paragraphs 7 and 8 (b) of the CDM modalities and procedures and rules 3 and 4.1(b) of the rules of procedure of the Executive Board, the COP shall, at its tenth session, elect to the Executive Board for a term of two years:²
- (a) One member and one alternate member from the African regional group;
 - (b) One member and one alternate member from the Asian regional group;
 - (c) One member and one alternate member from the Latin America and Caribbean regional group;
 - (d) One member and one alternate member from the Western Europe and Other regional group;
 - (e) One member and one alternate member from Parties included in Annex I to the Convention (Annex I Parties);
 - (f) The COP is also to elect a member from non-Annex I Parties. This election could not take place at COP 9 as no nomination had been received during the session. Once a nomination had been submitted after the closing of COP 9, the Board appointed the

¹ This section might be revised depending on deliberations by the Executive Board at its fifteenth meeting (EB 15) regarding procedures for review as referred to in paragraph 65 of the CDM modalities and procedures.

² “Upon the entry into force of the Kyoto Protocol”, in accordance with paragraph 3 (b) of decision 17/CP.7, the COP shall invite nominations for membership in the Executive Board “to replace any member of the executive board of the clean development mechanism whose country has not ratified or acceded to the Protocol. Such new members shall be nominated by the same constituencies and elected at the first session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol”.

nominee, Mr. Lu Xuedu, with a view to an election for that seat on the Board taking place at COP 10.

II. Work undertaken since the ninth session of the Conference of the Parties

8. This chapter highlights the key operational achievements in implementing the CDM. Significant progress was made towards advancing the process leading to the registration of CDM project activities. The Board ensured that all elements for the submission of the first projects were in place, notably through (i) accrediting operational entities which are needed to validate projects before registration and are thus an essential component of the credibility of the CDM system; (ii) accelerating the consideration of methodologies wherever possible, including work on their consolidation; (iii) advancing its works to facilitate the submission of methodologies for potential afforestation and reforestation project activities subsequent to the adoption of decision 19/CP.9; (iv) ensuring that elements for submitting small-scale CDM projects activities were up-to-date; (v) clarifying procedures of the submission of CDM project activities; (vi) overseeing the process towards establishing the CDM registry; and (vii) enduring that close liaison with SBSTA was maintained on matters of mutual interest.

9. The Board wishes to highlight to Parties that there has been a significant increase in the volume and complexity of work. At times, this stretched the structure and the resources to the limit.

10. The Board also wishes to note that, contrary to expectations, and in spite of all elements for processing projects are in place, no project has yet been submitted for registration as a CDM project activity. This is obviously due to circumstances beyond the control of the Board such as market considerations.

A. Accreditation process for operational entities

1. Mandate and background

11. The Executive Board is responsible for the accreditation of operational entities and for the provisional designation of such entities pending their designation by the COP. The mandates for the accreditation and designation functions are contained in paragraphs 2, 3 (c), 4 and 6 (b) of decision 17/CP.7 and paragraph 5 (f) of its annex containing the CDM modalities and procedures, paragraph 1 (d) of decision 21/CP.8 and paragraph 1 (d) of decision 18/CP.9.

12. Further, in accordance with paragraph 5 (g) of the CDM modalities and procedures, the Board is responsible for the review of the accreditation standards contained in appendix A to the CDM modalities and procedures, making recommendations to the COP for its consideration, as appropriate.

13. In its work on accreditation, the Board has been aware that, in accordance with paragraph 4 (b) of the CDM modalities and procedures, the COP is to review the regional and subregional distribution of designated operational entities and take appropriate decisions to promote the accreditation of such entities from developing country Parties. In this context, the COP, in its decision 18/CP.9, requested Parties to promote capacity-building, within the framework of decision 2/CP.7, and called on IGOs and NGOs to contribute to this effort.

2. Work undertaken and action taken, including decisions, as appropriate

14. Since COP 9, six (6) new applications for accreditation were received, bringing the total number of applications to 25. Two (2) of the six (6) new applicant entities (AEs) are located in developing countries. All applications, and their stage of consideration, can be viewed on the UNFCCC CDM web site.

15. During the reporting period, the Board has accredited and provisionally designated four (4) applicant entities for “sector-specific validation”. These are Japan Quality Assurance Organization (JQA), Det Norske Veritas Certification (DNVC-UK), TÜV Industrie Service GmbH TÜV SÜD GRUPPE (TÜV SÜD) and Société Générale de Surveillance UK Ltd.(SGS UK Ltd.). It should be recalled that the Executive Board had reported to COP 9 that, in order to facilitate applications, operational entities can be accredited in phases (i.e. first for validation and subsequently for verification) and sector-by-sector. Hence the term “sector-specific validation”. The scope for which a DOE is accredited can be viewed on the UNFCCC CDM web site³.

16. It should be recalled that prior to accreditation, upon the successful completion of the desk review and the on-site assessment, an applicant entity is issued a letter indicating that it has reached this advanced stage of accreditation. The accreditation panel informed the Board of the issuance of such “indicative letters” to the following four (4) applicant entities (in addition to the four (4) letters previously provided to the entities which, in the meantime, have become accredited): Tohmatsu Evaluation and Certification Organisation (TECO); Japan Consulting Institute (JCI); Bureau Veritas Quality International Holding S.A. (BVQI); TÜV Industrie Service GmbH, TÜV Rheinland Gruppe (TÜV Rheinland).

17. The consideration of the remaining 17 applications is at various stages of the accreditation procedure: Three (3) have undergone the on-site assessment and reports are being finalized; three (3) AEs are implementing corrective action as a result of non-conformities identified on-site by the CDM Assessment Team; three (3) entities have advanced to the stage where an on-site assessment of their premises is imminent. For four (4) entities, assessment teams are being identified or have been launched; for further three (3) AEs, the documentation submitted was found to be incomplete and re-submission was requested. One (1) AE withdrew its application.

18. The geographical distribution of the 25 applications received so far is as follows: nine (9) applications are from the Asia and Pacific region, 15 from the Western Europe and Other region and one (1) from the Latin America and Caribbean region. Four (4) applications are from non-Annex I Parties, with three (3) being from the Asia and Pacific region and one (1) from the Latin America and Caribbean region. The COP may wish to note that, in order to facilitate applications of operational entities from developing countries, the Board stipulated that such entities may opt to pay the non-reimbursable application fee in two instalments: 50 per cent at the time of application and the remainder once the entity has been successfully accredited and provisionally designated by the Board.

19. In order to facilitate the process of accreditation, the Board clarified matters relating to the role of a designated operational entity (DOE) in the CDM process, the purpose of witnessing and costs related to accreditation as follows⁴:

³ See section on “Designated Operational Entities” on the UNFCCC CDM web site: <http://cdm.unfccc.int/DOE/list>.

⁴ All clarifications/guidance provided relating to accreditation are contained in the document "Clarification/guidance related to the accreditation of operational entities by the Executive Board of the CDM"(CDM-ACCR03) which is available on the section “Guidance/clarification” on the UNFCCC CDM web site: <http://cdm.unfccc.int/Reference/Guidclarif>.

- (a) Regarding the role of a DOE within the governance structure of the CDM, the Board reiterated that the unique role of the DOE consists in checking, on behalf of the Board, that proposals by project participants are in line with the modalities and procedures of the CDM and all additional guidance/clarifications provided by the Board. In interacting with AEs and DOEs, the issue was raised that problems in fulfilling this role may arise from the fact that a DOE is contracted by the client and operates in a competitive environment. In order to ensure common understanding of underlying rules and of respective roles, the Board established the practice of meeting with DOE/AEs in conjunction with its meetings and requested the secretariat to convene, in addition, regular meetings with AE/DOEs to exchange views;
- (b) The Board provided clarifications/guidance on the purpose of witnessing in the accreditation process, the number of required witnessing activities and the size of projects used as a basis. The purpose of a witnessing activity is to assess whether an AE, within the scope it has applied for, is implementing its tasks in line with its documented quality assurance policy and procedures as well as its procedures for performing validation, and verification and certification, related to CDM project activities. The Board further clarified that an activity that has successfully undergone witnessing, does not need to be re-performed once an accredited operational entity makes a submission for the same case, for example when requesting registration of a project;
- (c) The Board, at its thirteenth meeting, took note of a list of cost-containing measures regarding accreditation submitted by the CDM Accreditation Panel in the context of its second progress report. In order to provide a better basis to applicant entities on the approximate cost of accreditation in addition to the non-reimbursable accreditation fee, the CDM Accreditation Panel also developed a table indicating fees to be paid for effecting different steps during an assessment. In establishing the level of fees, consideration has been given to the need to keep the costs of accreditation to a minimum while ensuring that the work performed is of highest standard.⁵

⁵ The table is available in the section on “Designated Operational Entities” on the UNFCCC CDM web site: <http://cdm.unfccc.int/DOE/accrappl.html> .

20. In carrying out its accreditation functions, the Board was supported by the CDM Accreditation Panel (CDM-AP) which met four (4) times during the reporting period. The Board confirmed Mr. John Kilani as Chair of the Accreditation Panel and appointed Ms. Marina Shvangiradze as Vice-Chair after the term of Mr. Oleg Pluznikov as a Board member had ended. Stressing the need for continuity, the Board re-designated, in accordance with the terms of reference of the CDM-AP, all previously serving members of the CDM-AT for a second term (from 1 January 2004 to 30 June 2005). It also decided to replace, henceforth, two or three members every year. Such new experts shall, whenever possible, not originate from the same region as the remaining members.

21. The Board expressed its high appreciation for the excellent advice and support received from the CDM-AP and its Chair and Vice-Chair. Assisted by the secretariat, their professional commitment allowed the efficient implementation of the accreditation procedures and the handling of a large and complex body of applications. It urged the panel to continue, with the support of the secretariat, its efforts to increase the number of experts, especially those from developing countries, applying to be included in the roster of experts for CDM-ATs.

22. The Board also expressed its gratitude to members of the CDM-ATs, who are undertaking operational tasks in the field on its behalf, and to the public for providing comments on the process. The Board equally wishes to convey its appreciation to the designated operational and applicant entities for engaging in the CDM process and for showing their commitment to ensuring the environmental credibility and operational flexibility of the CDM.

23. Finally, with operational entities becoming accredited and provisionally designated, the institutional set-up for operating the CDM is in place.

B. Methodologies for baselines and monitoring plans

1. Mandate and background

24. The Executive Board has critical responsibilities on methodological matters, notably, in accordance with paragraph 38 of the CDM modalities and procedures, regarding the approval of methodologies for baselines and monitoring plans and the implementation of provisions contained in the CDM modalities and procedures on related matters. They entail the following functions:

- (d) Developing and making recommendations to the COP on guidance relating to methodological issues (see appendix C of the CDM modalities and procedures);
- (e) Approving new methodologies relating, inter alia, to baselines, monitoring plans and project boundaries (see paragraphs 5 (d) and 38, and appendix C, of the CDM modalities and procedures).

25. By its decision 18/CP.9, the COP encouraged the Executive Board, where appropriate, to intensify its work on methodologies and to provide further guidance for the development of methodologies which have a broader applicability.

2. Work undertaken and action taken, including decisions, as appropriate

26. In order to facilitate the submission of proposed CDM project activities and new methodologies by project participants, the Board agreed on the following:

- (f) Revisions to the procedures for the submission and consideration of a proposed new methodology (for version 05, see report of the thirteenth meeting of the Executive Board⁶);
- (g) Revisions, with the assistance of the Methodologies Panel, to the project design document (CDM-PDD) in order to include relevant guidance provided by the Board since the adoption of version 01 in August 2002, which resulted in the adoption by the Board, at its fourteenth meeting, of the following documents (effective as of 1 July 2004):
 - (i) CDM project design document form (CDM-PDD), Version 02;
 - (ii) CDM proposed new methodology: baseline (CDM-NMB), Version 01;
 - (iii) CDM proposed new methodology: monitoring (CDM-NMM), version 01.
 - (iv) Guidelines for completing the CDM-PDD, CDM-NMB and CDM-NMM.

27. In implementing the procedures for the technical review of methodologies and public input, the Board was keen to adjust its approaches and work processes as necessary so that multiple objectives could be achieved: obtaining high quality products, opening the process as much as feasible to public scrutiny and broad expert input and containing costs.

28. In its work on methodologies, the Board therefore draws on the recommendations of its Methodologies Panel which, apart from its own expertise, takes into account the results of desk reviews by experts (two for each methodology) and public input. For the purpose of fostering transparency and the broadest possible engagement of experts and the public, each submission of a new methodology is made available on the UNFCCC CDM web site and is announced through the UNFCCC CDM News facility.

29. The Board wishes to express its deep appreciation for the excellent advice and support it has received from members of the Methodologies Panel and its Chair, Mr. Jean Jacques Becker and Vice-Chair, Mr. José Miguez and for the valuable inputs received from experts (desk reviewers) and the public. Only through their special effort and commitment, assisted by the secretariat, was it possible to accomplish the large and challenging workload.

30. Based on experience gained, the Board revised at its thirteenth meeting, the terms of reference of the Methodologies Panel⁷. It also selected five new members (Mr. Felix Babatunde Dayo, Mr. Paata Janelidze, Mr. Stanford Johanne Mwakasonda, Mr. Arturo Villavencio and Mr. Zhihong Wei) for a two- year term. The Board expressed its deep appreciation to the outgoing members of the Methodologies Panel, Mr. Vladimir Berdin, Mr. Oscar Coto, Mr. Liu Deshun, Mr. Harald Winkler and Mr. Peter Zhou, for their excellent work. The Methodologies Panel, having met four times since COP 9,

⁶ See section on "Reference/procedures" on the UNFCCC CDM web site:

<http://cdm.unfccc.int/Reference/Procedures>.

⁷ See Annex 1 of the thirteenth meeting of the CDM Executive Board on the UNFCCC CDM web site:

<http://cdm.unfccc.int/EB/Meetings/>

is expected to continue its work in accordance with its revised terms of reference, i.e. making recommendations for consideration and approval by the Board⁸. Supported by the secretariat, it is also to make further efforts to increase the number of experts applying to be included in the roster of experts for undertaking desk reviews of proposed new methodologies, especially from developing countries. The Board wishes to express its special gratitude to the project participants that have proposed new methodologies for baselines and monitoring plans and have thus made an important contribution to the CDM process.

31. Since having launched its invitation to project proponents in March 2003 to submit new methodologies for the Board's consideration, there have been seven rounds. 64 proposals for new baseline and monitoring methodologies were submitted by project participants through designated operational entities or applicant entities for consideration.⁹

32. The Executive Board has approved 13 (thirteenth) baseline and monitoring methodologies, four (4) of them during the reporting period, which once approved, undergo reformatting to ensure methodology-specific information and to incorporate applicability conditions. The following 11 cases are already reformatted and thus available to be used by project proponents for project activities¹⁰:

AM0001: Incineration of HFC 23 waste streams;

AM0002: Greenhouse gas emission reductions through landfill gas capture and flaring where the baseline is established by a public concession contract;

AM0003: Simplified financial analysis for landfill gas capture projects;

AM0004: Grid-connected biomass power generation that avoids uncontrolled burning of biomass;

AM0005: Small grid-connected zero-emissions renewable electricity generation;

AM0006: GHG emission reductions from manure management systems;

AM0007: Analysis of the least-cost fuel option for seasonally-operating;

AM0008: Industrial fuel switching from coal and petroleum fuels to natural gas without extension of capacity and lifetime of the facility;

AM0009: Recovery and utilization of gas from oil wells that would otherwise be flared;

AM0010: Landfill gas capture and electricity generation projects where landfill gas capture is not mandated by law;

AM0011: Landfill gas recovery with electricity generation and no capture or destruction of methane in the baseline scenario.

⁸ For information regarding the Methodologies Panel please refer to section on "Panel" and on "Methodology Panel (Meth Panel)" on the UNFCCC CDM web site: <http://cdm.unfccc.int/EB/Panels> and <http://cdm.unfccc.int/EB/Panels/meth/index.html>.

⁹ This section of the report may need to be updated depending of deliberations of the EB 15 regarding recommendations of the eleventh meeting of the Methodologies Panel on individual proposals for new baseline and monitoring methodologies.

¹⁰ Approved methodologies are made available on the UNFCCC CDM web site at: <http://cdm.unfccc.int/methodologies/approved>.

33. Proposals for 12 baseline and monitoring methodologies were not approved by the Executive Board. The balance of 39 cases are under different stages of review. The status and history of a proposed and approved methodology can be consulted at any time on the UNFCCC CDM web site¹¹.
34. Updated information on further rounds for submissions, and results of the consideration process, will be reported to the COP at its tenth session by the Chair of the Board, orally and/or through an addendum to this document, as appropriate.
35. In response to the mandate of COP 9 to intensify its work on methodologies and to provide further guidance for the development of methodologies which have a broader applicability, the Board has requested its Methodologies Panel to make recommendations on consolidation options in relation to the following areas:¹²
- (h) Approved methodologies applicable to landfill gas project activities;
 - (i) Criteria for choosing from different methodological approaches such as operating margin, build margin or combined margin, for methodologies related to project activities which deliver electricity to the grid;
 - (j) Tools for demonstration of additionality.
36. It also adopted a number of measures, with a view to making its work on methodologies more efficient and cost-effective, to address the work load of its Methodologies Panel and to ensure that the consideration of methodologies is delivered in a timely and consistent manner, and, most importantly, yields the highest possible quality in accordance with the modalities and procedures for the CDM.

C. Afforestation and reforestation project activities

1. Mandate and background

37. Having key responsibilities for implementing the provisions contained in decision 19/CP.9 and the annex on CDM modalities and procedures for afforestation and reforestation project activities, the Board has to fulfil the following functions:
- (a) Developing and making recommendations to the COP on guidance relating to methodological issues relating to afforestation and reforestation CDM project activities (see appendix C of the CDM modalities and procedures for afforestation and reforestation activities);
 - (b) Approving new methodologies for afforestation and reforestation relating, inter alia, to baselines, monitoring plans and project boundaries (see paragraphs 4 and 13 and appendix C of the CDM modalities and procedures for afforestation and reforestation project activities).

2. Work undertaken and action taken, including decisions, as appropriate

38. In order to facilitate the submission of new methodologies for afforestation and reforestation project activities by project participants, the Board agreed to establish, in accordance with paragraph 18

¹¹ Please refer to section on "Methodologies" on the UNFCCC CDM web site: <http://cdm.unfccc.int/methodologies>.

¹² This section of the report may be updated depending of deliberations of the EB 15 regarding recommendations of the eleventh meeting of the Methodologies Panel on consolidated methodologies for baseline methodology for grid-connected electricity generation from renewable sources; baseline methodology for landfill gas project activities; and tools for demonstration of additionality.

of the CDM modalities and procedures, an expert working group on afforestation and reforestation activities (A/R WG) to develop recommendations to the Board on methodological issues. It designated Mr. Eduardo Sanhueza and Mr. Martin Enderlin to be the Chair and Vice-Chair of the A/R WG, respectively.

39. On the basis of the terms of reference for the A/R WG, approved by the Board in accordance with rule 30 of the rules of procedure of the Executive Board, a call for experts was posted on the UNFCCC CDM web site. Five experts (Mr. Paul Victor Desanker, Mr. Shailendra Kumar Singh, Mr. Wojciech Seweryn Galinski, Mr. Walter Oyhantcabal and Ms. Eveline Trines) were selected at EB 14 as working group members. Upon withdrawal of Ms. Trines, the Board designated (tbd) as the fifth member at its fifteenth meeting. The A/R WG held its first meeting on 12-13 July 2004 in Bonn, Germany. The report of this meeting was forwarded to the Board via listserve and subsequently made publicly available on the UNFCCC CDM web site^{13 14}.

D. Simplified modalities and procedures for small-scale CDM project activities

1. Mandate and background

40. Simplified modalities and procedures for small-scale CDM project activities had been adopted by COP through decision 21/CP.8 and its annex II. In accordance with that annex, the Board shall review and amend, as necessary, the appendix B on “Indicative simplified baseline and monitoring methodologies for selected small-scale CDM project activity categories” at least once a year.

2. Work undertaken and action taken, including decisions, as appropriate

41. In accordance with the mandate received from COP 8, the Board, with the assistance of its Methodologies Panel, considered proposals on new categories for small-scale CDM project activities and revised, in accordance with the simplified modalities and procedures, the “Indicative simplified baseline and monitoring methodologies for selected small-scale project activity categories” as follows:

- (a) Amendment included in Annex 2 of the twelfth report of the Executive Board, as already reported to COP 9;
- (b) Amendment included in Annex 2 of the fourteenth report of the Executive Board on “type III.E Avoidance of methane production from biomass decay through controlled combustion”¹⁵.

42. The Board emphasized that, in accordance with the simplified modalities and procedures, project participants may continue proposing to the Board new categories for small-scale CDM project activities and amendments or revisions to existing simplified methodologies. The Board will continue to review and amend, as necessary, at least once a year, appendix B.

43. In order to expedite the consideration of proposals for new categories for small-scale CDM project activities and amendments or revisions, the Board has agreed to launch a working group to assist the Executive Board in reviewing proposals.

¹³ For more information on the afforestation reforestation working group please refer to the section on “Panels” and “Afforestation and Reforestation Working Group” on the UNFCCC CDM web site:
<http://cdm.unfccc.int/EB/Panels> and <http://cdm.unfccc.int/EB/Panels/ar>.

¹⁴ To be updated depending on deliberations by EB 15 on recommendations of the first meeting of the AR WG.

¹⁵ The Appendix B is revised every time the Board agrees on amendments to it. A history table of amendments is kept in page 3 of the Appendix B.

E. Matters relating to the registration of CDM project activities

1. Mandate and background

44. The Executive Board exercises key functions relating to the registration of proposed CDM project activities, in accordance with paragraphs 40 and 41 of the CDM modalities and procedures.

45. In this context, in accordance with paragraph 5 (o) of the CDM modalities and procedures, the Board recommended to COP 9 procedures for conducting a review referred to in paragraph 41 of the CDM modalities and procedures. These are to include, inter alia, procedures for facilitating the consideration of information from Parties, stakeholders and UNFCCC accredited observers.

2. Work undertaken and action taken, including decisions, as appropriate

46. In addition to the above mentioned procedures, the Board developed the following procedures and clarifications in order to facilitate and clarify tasks relating to the registration of proposed CDM project activities:¹⁶

- (a) Validation-related: Clarifications on validation requirements to be checked by a designated operational entity (Report of the thirteenth meeting of the Executive Board);
- (b) Registration-related: Revision to the procedures for registration of a proposed CDM project activity (Annex 7 of the report of the fourteenth meeting of the Executive Board).

47. To date, twenty-seven (27) proposed CDM project activities have been submitted for validation and have been made available for comments in accordance with paragraph 40 (b) and (c) of the CDM modalities and procedures.¹⁷

48. With the review procedure adopted by COP 9, the accreditation and provisional designation of four DOEs, the public availability of eleven (11) approved methodologies and fourteenth (14) simplified methodologies for small-scale project activities, as well as the launching of a web-based registration system, the Board has put all elements in place for projects to be submitted for registration by project participants. Yet, as of the writing of this report, no request for registration has been submitted¹⁸.

F. CDM registry

1. Mandate and background

49. In accordance with paragraph 5 (l) of the CDM modalities and procedures, as well as decision 19/CP.9, the Executive Board is to establish and maintain a CDM registry to ensure the accurate accounting of the issuance, holding, transfer and acquisition of certified emissions reductions (CERs), temporary certified emissions reductions (tCERs) and long-term certified emissions reductions (lCERs) by non-Annex I Parties.

2. Work undertaken and action taken, including decisions, as appropriate

¹⁶ See sections on "Reference/procedures" and "Reference/clarifications/guidance" on the UNFCCC CDM web site: <http://cdm.unfccc.int/Reference/Procedures> and <http://cdm.unfccc.int/Reference/Guidclarif>

¹⁷ See section on "Public availability of PDD" the UNFCCC CDM web site : <http://cdm.unfccc.int/Validation/publicPDD>

¹⁸ This section may need to be updated at EB 15 if requests for registration by proposed CDM project activities would have been made until then.

50. The Board considered issues relating to the development, establishment and operation of the CDM registry from its twelfth to fifteenth meetings. Ms. Sushma Gera and Mr. Xuedu Lu were requested by the Board to continue following issues relating to registries, including deliberations on registry systems by the Subsidiary Body for Scientific and Technological Advice (SBSTA).
51. The Board continued its work on the establishment of the CDM registry by considering broad issues and options concerning the development and operation of the CDM registry identified by the secretariat.
52. The Board has agreed that the CDM registry would include temporary accounts for Annex I Parties, and project participants from such Parties, until national registries for such Parties and entities are operational, for the purpose of receiving CERs, tCERs and ICERs forwarded to them from the pending account and of transferring such units to accounts in national registries.
53. The Board has further agreed that the secretariat is to be the CDM registry administrator with responsibility, under the authority of the Board, for implementing and operating the CDM registry.
54. The two main options identified for developing and operating the CDM registry - emanating on the basis of responses received to the public call to Parties and organizations for inputs to the development of the CDM registry, as issued by the Board at its ninth meeting - are as follows:
- (a) Adaptation of a generic registry to the CDM registry requirements;
 - (b) New development of the CDM registry by the secretariat.
55. The Board requested the secretariat to further explore the development of the CDM registry, including the possibility of adapting one of the registry software systems identified through the public call for input, taking account of overall cost, user-friendliness of the system and the timing of delivery of the CDM registry.
56. In response, the secretariat conducted a detailed survey of the six systems identified through the public call for input. This survey sought, in particular, to identify the extent to which these systems currently meet the technical requirements of the CDM registry, the extent of adaptation needed for these systems to fully meet the requirements, and possible options for hosting, maintaining and upgrading the CDM registry. However, only approximate estimates of resource implications could be developed at that time as these would vary with the technical details of specific proposals for the development and operation of the CDM registry based on each system.
57. The Board therefore requested the secretariat to proceed with the selection, development and implementation of one of the systems as the CDM registry, in accordance with relevant UN procurement procedures, while continuing to give priority to the assessment of the technical functionality and the timing of when the system could be made operational as the CDM registry. Three organizations expressed interest in submitting a proposal on the work to develop and establish the CDM registry, and the responses to the request for proposal are to be obtained in early September 2004, with a view to finalizing the evaluation swiftly and awarding the contact by mid-September 2004. This would allow to establish the CDM registry before the end of 2004. Further information, including timelines and estimates of resource implications, are to be included in the addendum to this report (FCCC/CP/2004/2/Add.1).

G. Modalities for collaboration with the Subsidiary Body for Scientific and Technological Advice

1. Mandate and background

58. In paragraph 6 (e) of decision 17/CP.7, the COP requested the Executive Board to identify modalities for seeking collaboration with the SBSTA on methodological and scientific issues.

2. Work undertaken and action taken, including decisions, as appropriate

59. In accordance with rule 14 of its the rules of procedure, the Board agreed to designate members, as necessary, to follow work undertaken by the SBSTA on methodological and scientific issues relating to the work of the Executive Board. The Board designated:

- (c) Ms. Sushma Gera and Mr. Xuedu Lu to continue following deliberations by the SBSTA on technical standards for registries and to update the Board on developments (see also section III.E, above);
- (d) Mr. Martin Enderlin and Mr. Eduardo Sanhueza to continue following deliberations by the SBSTA on the simplified modalities and procedures and measures to facilitate small-scale afforestation and reforestation project activities under the CDM, to regularly update the Board on developments, and to share the views of the Board with the SBSTA Chair as necessary.

60. The Board took note of progress made in consultations on the development of technical standards for registries, and on the simplified modalities and procedures and measures to facilitate small-scale afforestation and reforestation project activities under the CDM.

61. The Board also requested Mr. Muyungi to follow up on issues related to capacity-building and to keep the Board informed of developments in this respect.

III. Governance matters

A. Membership issues

62. COP 9 elected members and alternate members to fill the vacancies arising from the expiration of terms after a period of two (2) years, with the exception of one member from non-Annex I Parties, for the reason mentioned above, who was subsequently appointed by the Board. The member of the Asian Group, Mr. Hassan Tajik, who resigned was replaced by (tbd) once the Board has appointed the nominee of the Asian Group. During the reporting period, the Board was thus composed of the following members and alternate members (in alphabetical order):

Members	Alternate members	
Mr. John W. Ashe	Ms. Desna Solofa	Small island developing States
Mr. Jean-Jacques Becker	Mr. Martin Enderlin	Western Europe & Other regional group
Mr. Georg Børsting (Vice-Chair)	Mr. Hans Jürgen Stehr	Annex I Parties
Mr. John Shaibu Kilani (Chair)	Mr. Ndiaye Cheikh Sylla	African regional group
Mr. Xuedu Lu	Mr. Juan Pablo Bonilla	Non-Annex I Parties
Mr. José Miguez (for remainder of mandate of Mr. Gylvan Meira Filho)	Mr. Eduardo Sanhueza	Latin America & Caribbean regional group
Mr. Richard Muyungi	Mr. Hernán Carlino	Non-Annex I Parties
Mr. Sozaburo Okamatsu	Ms. Sushma Gera	Annex I Parties
Ms. Marina Shvangiradze	Ms. Anastassia Moskalenko	Eastern European regional group
Mr. Hassan Tajik/Mr. (as of EB xx)	Mr. Chow Kok Kee	Asian regional group

B. Election of the Chair and the Vice-Chair of the Executive Board

63. In accordance with paragraph 12 of the CDM modalities and procedures and rule 12 of the rules of procedure of the Executive Board, the Board elected by consensus, at its thirteenth meeting, Mr. John Shaibu Kilani, member from non-Annex I Parties (African region), and Mr. Georg Børsting, member from Annex I Parties, as Chair and Vice-Chair, respectively, of the Executive Board. Their tenure ends with the first meeting of the Board in 2005.

64. On behalf of the Board, the new Chair expressed the deep appreciation of the Board to the outgoing Chair, Mr. Hans-Jürgen Stehr, and Vice-Chair, Mr. Franz Tattenbach Capra, for their excellent leadership to the Board during its second year of operation.

C. Calendar of meetings of the Executive Board in 2004

65. The Executive Board, at its thirteenth meeting, adopted the following calendar of meetings in 2004, envisaging the need to hold a total of five meetings until COP 10:

Executive Board meetings	Dates	Location
Thirteenth meeting	24–26 March	UNFCCC HQ in Bonn, Germany
Fourteenth meeting	12–14 June	UNFCC HQ in Bonn, Germany
Fifteenth meeting	1–3 September	UNFCCC HQ in Bonn, Germany (in conjunction with the subsidiary bodies)
Sixteenth meeting	21–22 October	UNFCCC HQ in Bonn, Germany
Seventeenth meeting	1–3 December	Buenos Aires, Argentina (in conjunction with COP 10)

66. The agenda and the annotated agenda for each Executive Board meeting, including documentation supporting agenda items, as well as the meeting reports are available on the UNFCCC CDM web site.¹⁹

D. Implementation of the rules of procedure of the Executive Board

67. The Executive Board, at its thirteenth meeting, noted the adoption by COP 9 of the amendments to rules 4 and 12 of the rules of procedure of the Executive Board, contained in annex I to decision 18/CP.9, and the preambular and operative paragraphs of the same decision relating to the implementation of rules 26 and 27 of the rules of procedure.

68. Based on its experience with the implementation of the rules of procedure and, having reviewed them, the Board does [not]²⁰ perceive the need to recommend any changes to the COP as the current rules allow the administering of the CDM in an efficient, cost-effective and transparent manner.

69. In the following, the Board wishes to highlight a number of provisions whose implementation is central to the proper functioning of the CDM: (a) expertise in support of the work of the Board; (b) the role of the secretariat; (c) the communication network; and (d) implementation of rules 26 and 27 relating to transparency and attendance, respectively.

(a) Expertise in support of the work of the Executive Board: The Board continues to draw on expertise, as needed to perform its functions. It receives technical support and recommendations from two panels and two working groups which are, in turn, calling on additional specialized expertise, for example in the form of CDM-Assessment Teams and desk reviewers on methodologies. The following panels and working groups are in place:

- CDM Accreditation Panel (five members and two Board members as its Chair and Vice-Chair);
- CDM Methodologies Panel (ten members and two Board members as its Chair and Vice-Chair);
- CDM Afforestation and Reforestation Working Group (five members and two members as its Chair and Vice-Chair);
- CDM Small-Scale Projects Working Group (tbd members).

¹⁹ <http://cdm.unfccc.int/EB/Meetings>

²⁰ This section may need to be updated at EB 15 if decisions on this matter will be taken.

In order to enhance common understanding of procedures and to share information, the secretariat, at the request of the Executive Board, organized the second joint workshop for the Board, members of the panels and the Afforestation and Reforestation Working Group, members of CDM-ATs, desk reviewers of methodologies and representatives of provisionally designated operational and applicant entities. The one and a half-day workshop is to take place on 3-4 September 2004 in Bonn (Germany) immediately following the fifteenth meeting of the Executive Board and in conjunction with scheduled meetings of the two panels and the Afforestation and Reforestation Working Group.

(b) The role of the secretariat: The secretariat, in accordance with paragraph 19 of the CDM modalities and procedures and rule 32 of the rules of procedure, services the CDM. The Deputy-Coordinator of the Cooperative Mechanisms Programme assumes the functions of Secretary for the CDM Executive Board, with staff of its Project-based Mechanisms Sub-programme, mainly being funded from extra-budgetary resources, provides technical and organizational support to the CDM, drawing on services and expertise within other programmes of the secretariat if and when necessary. The servicing of the Board, its two panels and the two working groups – along with the management of associated experts for specialized technical input (e.g. desk reviewers and assessment teams) - as well as the maintenance of the UNFCCC web site and responding to external queries are among the most resource-intensive core functions. In addition, the secretariat mobilizes resources for the CDM and manages them, as well as the income from fees for accreditation and registration, with regular reports being provided to the Board on the status of resources for work on the CDM (see also Chapter IV below).

(c) The communications network: In order to allow for the efficient, cost-effective and transparent exchange of information between the Board, its panels, experts and the secretariat, the secretariat set up and continues to maintain several electronic communication facilities: extranets (7), list serves (more than 55) and discussion tools (see table below). These facilities are connected to the UNFCCC CDM web site²¹, which also provides functions regarding designated and applicant operational entities and, through them, to project developers. In addition, there are links to designated national authorities (64 to date) and for public input (see also box 1 below). The use of these electronic facilities for the provision of information and the day-to-day operation of the CDM is instrumental to the smooth and cost-effective functioning of the CDM. Considerable savings have also been achieved by arranging telephone conferences for panels and CDM assessment teams (CDM-ATs) which support the work of the CDM Accreditation Panel.

²¹ <http://unfccc.int/cdm>

Facilities for electronic communication (via extranet, internet and e-mail)

User group	Extranet	List serve (e-mail)	Discussion tool (web)	Other
CDM Executive Board	✓	✓	✓	x
CDM Methodologies Panel	✓	✓	✓	On-line input
CDM Accreditation Panel	✓	✓	✓	On-line input
CDM Afforestation and Reforestation Working Group	✓	✓	✓	On-line input
CDM Assessment Teams (CDM-ATs)	Under development	~50 users (2 per team)	Under development	x
Desk reviewers (experts on methodologies)	✓	✓ (one way)	x	x
Designated operational entities	✓	✓	Under consideration	On-line submission for request for registration and proposed new methodologies
Applicant operational entities	✓	✓	Under consideration	On-line submission of proposed new methodologies
Designated national authorities (DNA)	Under development	✓	x	x
Public	x	x	x	- UNFCCC CDM web site - UNFCCC CDM News facility - On-line submission for call for inputs

(d) Implementation of rules 26 and 27 relating to transparency and attendance, respectively: The COP, in the preamble to its decision 21/CP.8, providing guidance to the Executive Board, had encouraged the Board to continue reporting on the implementation of rules 26 and 27 of the rules of procedure. In decision 18/CP.9, further reference is made to the implementation of rules 26 and 27 of the rules of procedure (preambular paragraph and operative paragraph 1 (e)). The Board is to keep its rules of procedure under review, including rule 26 and rule 27, and, if necessary, make recommendations, in accordance with paragraph 5 (b) of the annex to decision 17/CP.7, on any amendments or additions aimed at safeguarding the efficient, cost-effective and transparent functioning of the CDM.

- (i) Rule 26, further to the provisions of the CDM modalities and procedures for the Executive Board to make information publicly available (in particular, paragraph 5 (i), (j), (k) and (m)), stipulates that, subject to the need to protect confidential information, the principle of transparency should apply to all the work of the Board. This encompasses the timely public availability of documentation and

channels through which external comments by all Parties, and all UNFCCC accredited observers and stakeholders, can be submitted for consideration by the Board. The posting of the Board's meetings on the Internet is one way to ensure such transparency.

- (ii) Rule 27 of the rules of procedure, further to paragraph 16 of the CDM modalities and procedures, stipulates that meetings of the Executive Board shall be open to attendance, as observers, by all Parties and by all UNFCCC accredited observers and stakeholders, except where otherwise decided by the Board. It further foresees that observers may, upon invitation by the Board, make presentations relating to matters under consideration by the Board.

The measures taken to further the implementation of rules 26 and 27 - including the enhancement of the UNFCCC CDM web site; meetings of the Board with Parties and accredited observers; and the review by the Board of modalities for attendance by observers at its meetings - are shown in Box 1 and Box 2 below.

Box 1 Implementation of rule 26

The primary means for informing and communicating on the CDM is through the UNFCCC CDM web site (<http://unfccc.int/cdm>). It has been continuously improved by the secretariat to ensure that it efficiently serves as the authoritative source of information on the CDM. It contains the entire body of CDM documentation, ranging from access to agendas, supporting documentation and reports of each Executive Board, panel or working group meeting to all procedures and forms needed for making a submission. Meetings of the Board can be viewed through the web site live and as video-on-demand.

More than 3000 registered and an additional 4500 unregistered users consulted the UNFCCC CDM web site during the first eight (8) months of 2004. Feedback from users indicates that the UNFCCC CDM web site is seen as a user-friendly tool which allows visitors from all continents to have ready and cheap access to first-hand information on all CDM matters. The recent redesign of the web site is to further enhance its use. In addition, the secretariat supports stakeholders and the public by alerting them on current CDM matters through the UNFCCC CDM News facility (2,400 subscribers) and by following up on an ever-increasing number of specialized requests for information, wherever possible.

In order to facilitate communications and interactions between the Board, its panels, working groups and experts, operational entities, project developers, the secretariat and the public, the secretariat has set up electronic means for providing input and automated electronic work processes which are linked to the UNFCCC CDM web site. The vast use of these electronic tools, including dedicated extranets and discussion tools (see table in section D. above), allow the CDM process with its ever-expanding volume of work to be managed transparently, within established time frames and limited resources. Among the functions carried out on-line are access to the rosters of experts (3), selection of experts, the submission and processing of proposed new methodologies, application for accreditation, call for comments at validation stage and the request for registration. The public has been using the opportunity to comment, through electronic means, on CDM matters by making 79 comments on 55²² proposed new methodologies (using a dedicated input facility in accordance with relevant procedures²³) and five

²² These figures will be updated by EB 15 taking into account nine cases which are presently still open for public comments.

²³ At its eighth meeting, agreed in its procedures for submission and consideration of a proposed new methodology to make publicly available on the UNFCCC CDM web site (and to make an announcement through the UNFCCC CDM News facility) proposed new methodologies submitted to the Board and to invite public inputs on these for a period of 15 working days

comments with regard to 23 applicant entities (in accordance with relevant procedures²⁴). The secretariat has been able to provide support to the above-mentioned CDM functions in a cost-effective, flexible, readily accessible and timely manner by designing and using open-source management software.

Box 2 Implementation of rule 27

In order to ensure the efficient, cost-effective and transparent functioning of the CDM, the Board has requested the secretariat to continue to secure, in conjunction with its meetings, space sufficient to accommodate about 50 observers. Accredited observers need to register with the secretariat at least three weeks before a meeting to allow appropriate logistical and administrative arrangements to be made. The Board, as it keeps the functioning of this arrangement under review, has the possibility of revising this policy at each meeting for the subsequent meeting, if necessary. In this context, in particular when meetings are held in conjunction with sessions of the COP, the COP/MOP or their subsidiary bodies, the Board has requested the secretariat to bear in mind, when arranging future meetings, the issue of modalities for physical access of stakeholders. On the occasion of the Board meeting held in conjunction with COP 9 and the twentieth sessions of the subsidiary bodies, the secretariat has, therefore, ensured that additional observer space was available. In its efforts to promote dialogue and provide specific information to Parties and registered accredited observers, the Board has also conducted informal briefings on the occasion of all of its meetings. Observers have expressed satisfaction with the arrangements made and with the opportunities given for direct exchanges with the Board.

Altogether, 37 observers have registered during the reporting period. This amounts to an average of 18 observers per meeting. One third of these represented Parties and most others came from environmental and business NGOs. Two observers were nationals of non-Annex I Parties and 29 of Annex I Parties with the following regional distribution: Asia (19 per cent), Europe (62 per cent), North America (16 per cent) and South America (3 per cent).

On top of its regularly scheduled informal briefings for observers, the Board organized question-and-answer sessions at COP 9 and at the twentieth sessions of the subsidiary bodies. These information events were well attended and provided an opportunity for dialogue on critical issues before the Board. Additional communications are received from Parties, IGOs and NGOs on an ad hoc basis and reflected under the agenda item "other matters", if appropriate. The Board has asked two of its members to follow up on these communications, if and when necessary.

The Chair of the Board also continues to meet with representatives of IGOs, NGOs, local governments and indigenous peoples when additional suitable opportunities arise.

The Board further established the practice to meet with designated and applicant entities to discuss issues of mutual concern and requested, at its fourteenth meeting, the secretariat to convene a forum for DOEs and AEs, to be held as necessary.

In summary, the Board has been very encouraged by the increasing scope and depth of interactions on CDM issues and wishes to express its appreciation for the feedback and useful contributions received from the ever-widening CDM community. This includes the use made of viewing Board meetings via the internet (live or as video-on-demand) which allows relatively cheap and equitable access on a global scale: more than 800

²⁴ In accordance with paragraph 17 of the procedure for accrediting operational entities by the Executive Board, the redesigned web site contains a dedicated input facility. This facility provides the opportunity to Parties, UNFCCC accredited NGOs and stakeholders, to provide, within 15 days after announcement through the UNFCCC CDM News facility, any comments or information on an applicant entity.

different individuals, on average, visited the UNFCCC CDM web cast for this purpose. To the extent traceable, such visits were made from Africa (23), Asia (280), Europe (390), Middle East and Oceania (10), North America (934) and South America (37).

Bearing in mind decision 21/CP.8 and decision 18/CP.9, and its continued efforts to improve, wherever called for, its interaction with Parties, stakeholders and the public, the Board considers that the current application of rules 26 and 27 of its rules of procedure during the reporting period has allowed to achieve the multiple principles of efficiency, cost-effectiveness and transparency. The Executive Board also took note of paragraph 13 of the conclusion of the SBI at its twentieth session (FCCC/SBI/2004/L.7) on effective participation.

IV. Resources for the work on the CDM

3. Mandate and background

70. According to Article 12.8 of the Kyoto Protocol, the COP/MOP shall ensure that a share of the proceeds from certified project activities is used, inter alia, to cover administrative expenses.

71. The COP, by its decision 17/CP.7,

(a) Invited Parties to finance the administrative expenses for operating the CDM by making contributions to the UNFCCC Trust Fund for Supplementary Activities, with the possibility of reimbursement upon request;

(b) Stipulated that the COP shall determine the level of the share of proceeds to cover administrative expenses, upon the recommendation of the Executive Board;

(c) Requested the Executive Board to charge a fee to recover any project-related expenses until the COP has determined a percentage for the share of proceeds for the administrative expenses.

72. The COP, by its decisions 38/CP.7, provided an estimate of the resource requirements to facilitate the prompt start of the CDM during the biennium 2002–2003, amounting to US\$ 6.8 million. These resources were required to meet the costs of operational functions, and as additional to those contained in the UNFCCC programme budget for the biennium 2002–2003 for work relating to the further design and development of project-based mechanisms in general and of the CDM in particular. The invitation to Parties to contribute to the UNFCCC Trust Fund for Supplementary Activities for the prompt start of the CDM was reiterated by the COP by its decision 21/CP.8 and 18/CP.9.

73. The COP, by its decisions 16/CP.9, provided for limited core resources related to the work on project-based mechanisms in the context of the UNFCCC programme budget 2004–2005. By that same decision, it included a provision in support of the operations of the CDM in case the Kyoto Protocol enters into force within the biennium (Kyoto Protocol Interim Allocation). In the meantime, the functioning of the CDM needs to rely on continued contributions by Parties made to the UNFCCC Fund for Supplementary Activities, in addition to fees received by applicant entities for accreditation services and fees for the registration of projects.

4. Work undertaken and action taken, including decisions, as appropriate

74. During the reporting period, the Executive Board, based on reports by the secretariat at each of its meetings, monitored the operational costs of the CDM; the resource requirements in 2004–2005 (as

contained in the project document “Resource requirements for the prompt start of the CDM” of May 2002 and its revision of February 2004); and incoming resources, agreeing to reiterate the call by the COP on Parties for continued contributions for the prompt start of the CDM, to be made to the UNFCCC Trust Fund for Supplementary Activities, with a view to ensuring the continuation and sustainability of work.

75. **Operational costs and cost recovery:** The Board, conscious of the need to keep transaction costs for the CDM to a minimum, routinely reviewed the costs relating to the operation of the CDM. It therefore kept its schedule and the number of meetings of the Board and its panels under scrutiny and, assisted by the secretariat, implemented cost-cutting measures, such as linking Board, panel meetings and the workshop referred to above (also continuing to arrange meetings in proximity with or during weekends to obtain lower air fares and to facilitating the attendance of Board and panel members, who all have full time employment elsewhere and need to handle CDM matters in their spare time).

76. In this context, the Board wishes to stress that, in order to achieve the smooth functioning of the CDM and to cope with an increasing volume and complexity of work, Board members, panel members and the secretariat are making major contributions of their own time.

77. In order to establish a process of cost recovery through fees relating to case-specific operational tasks, such as accreditation and registration, the Board continues to apply the fee structure reported to COP 9:

- (a) For accreditation. An application fee of US\$ 15,000 is payable by an applicant entity at the time it applies. As stated in the section on accreditation (section III.A above), applicant entities from developing countries may pay the fee in two equal instalments, the first being due at the time of application and the second when accreditation is successfully completed.
- (b) For registration. A registration fee is raised as a down-payment until a share of proceeds is determined. The fee varies, depending on the size of a proposed CDM project activity. It ranges from a minimum of US\$ 5,000 (for a project producing a reduction of up to 15,000 average tonnes of CO₂ equivalent per year over the crediting period (estimated/approved)) to a maximum of US\$ 30,000 (for a project producing a reduction exceeding 200,000 average tonnes of CO₂ equivalent per year over the crediting period (estimated/approved)).

78. As experience is gained and actual cost data become more precise, the Board will review and, if necessary, revise the above fees and come up with a recommendations regarding the share of proceeds for administration.

79. **Outputs and Results in 2002-2003:** The Executive Board completed the entire work-programme 2003 as planned in the project proposal (COOP/2002/01). The Board reported to COP 9 on the progress made in 2003 through its second annual report and an addendum thereto (documents FCCC/CP/2003/2 and FCCC/CP/2003/2 Add.1). The COP expressed its satisfaction with the results achieved and provided further guidance to the Board through decision 18/CP.9.

80. **Resource requirements in 2004–2005:** The budget total in 2004–2005 is of USD 5.23 million. This figure includes the relevant overhead charges and the working capital reserve. Based on this budget, the resource requirements, as presented in the project document mentioned in paragraph 74 above, are categorized under four major clusters: meetings of the Executive Board, activities of panels/specialized expertise, workshops in support of CDM, and activities by the secretariat. The initial

estimates for each of these categories in the biennium 2004–2005 were USD 450,000, USD 1,24 million, USD 200,000, USD 2,13 million, respectively.

81. **Incoming resources to date, including commitments/contributions by Parties, fees and other.** At the end of the budgetary period 2002-2003, there was a carry-over amounting to USD 2.02 million. In response to the invitation by the COP, urgent calls by the Executive Board and communications from the Executive Secretary to Parties, 10 Parties (Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Switzerland and the United Kingdom) and the European Commission generously contributed or pledged to contribute to the CDM. The actual contributions received, as well as fees and an internal transfer, currently amount to USD 4.69 million (including 13% overheads). The details are as follows:

- (a) Commitments/contributions by Parties. An amount of USD 4.32 million has been pledged by Parties of which USD 4.09 million has been received to date. During the reporting period, end November 2003 to 31 July 2004, an amount of USD 1.24 has been pledged by 6 Parties (Canada, France, Luxemburg, Netherlands, Norway and Sweden) and by the European Commission of which USD 946,079 have been received to date. The contributions received from Parties have been essential for operating the CDM and are acknowledged with great appreciation.
- (b) Fees. A total of USD 367,339 has been received from twenty-five (25) applicant entities to date, with one applicant entity having paid in instalments as indicated above (paragraph 77 (a)). During the reporting period, an amount of 89,902 USD has been received by four (4) applicant entities.

82. In order to allow the CDM to be operated in a planned and sustainable manner, the Board recommends that the COP launches a strong appeal to Parties to make contributions to the UNFCCC Trust Fund for Supplementary Activities for the remainder of the biennium 2004-2005. Such contributions by Parties will still be essential in the biennium 2004–2005, even though the Board is operating a system of fees to recover case-specific costs associated with accreditation and registration, because a large portion of the costs for operating the CDM goes to governance and to maintaining the information systems and channels that are essential for broadening the scope of involvement in the CDM. Because of the bottom-up development of the CDM, it is not feasible at this stage to recover all costs for administering the CDM through fees, as this would disadvantage the pioneers and benefit later entrants.

83. The Executive Board has concluded that a determination of what share of proceeds shall go towards meeting the administrative costs of the CDM should only be undertaken once more reliable information is available on, inter alia, the value/price of a CER and the likely volume of CERs issued annually²⁵.

v. Summary of decisions

84. In accordance with rule 38 of the rules of procedure of the Executive Board, the report of each Board meeting has been made publicly available on the UNFCCC CDM web site.

85. The Board agreed to implement the provision contained in paragraph 17 of the CDM modalities and procedures, whereby decisions of the Board shall be made publicly available in all six official languages of the United Nations, either by their inclusion in reports by the Board to the COP, or by being posted on the UNFCCC CDM web site.

²⁵ This section may need to be updated at EB 15 if decisions on this matter will be taken.