



**Annex 5**

**Addendum to the third annual report of the CDM Executive Board to the COP**

The document contained in this annex is a draft version of the addendum prior to editing.  
The final document will be issued as a UNFCCC document with the symbol  
FCCC/CP/2004/2/Add.1

# DRAFT

## **Annual report (2003–2004) of the Executive Board of the clean development mechanism to the Conference of the Parties**

### **Addendum\***

#### *Summary*

The report of the Executive Board of the clean development mechanism (CDM) for the period 2003-2004 (FCCC/CP/2004/2) covers work undertaken from November 2003 until early September 2004. This addendum to the report provides additional information to the Conference of the Parties (COP), for consideration at its tenth session, on progress made in the period from September to December 2004 towards the implementation of the CDM during its third year of operation.

This addendum contains further information on developments relating to the registration of CDM project activities, notably the registration of the first CDM project activity on 18 November 2004, the accreditation of operational entities, the approval of new methodologies for baselines and monitoring and the CDM registry. It seeks guidance by the COP on the approach to be taken with regard to methodological issues of relevance both to the Convention and the Kyoto Protocol on one hand and the Montreal Protocol on the other. It recommends, for consideration by the COP at its tenth session, amendments to the rules of procedure of the CDM Executive Board which could be included as provisions in the COP decision providing guidance to the Executive Board of the CDM.

This addendum to the report, apart from providing additional information on measures taken to ensure the transparent functioning of the CDM and on modalities for attendance by observers at CDM Executive Board meetings, presents planned activities in 2005 and resources required to ensure the efficient and cost-effective functioning of the CDM.

The Chair of the Executive Board, Mr. John Shaibu Kilani, will present the report and the addendum to the COP.

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\* This addendum could only be released on 7 December 2004 as it had to reflect the outcome of the seventeenth meeting of the CDM Executive Board which took place in Buenos Aires (Argentina) from 1-3 December 2004.

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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. In accordance with paragraphs 2, 4 and 19 of decision 17/CP.7 and provisions of paragraphs 2–5 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 Kyoto 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 in decision 17/CP.7.

### B. Scope of this addendum

3. The third annual report by the Executive Board (FCCC/CP/2004/2) 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 for adoption by the COP at its tenth session. It covers tasks carried out and procedures implemented during the period between November 2003 until early September 2004. This addendum covers the period from September to early December 2004. Only the sections containing new information have been updated. Sections which are not different to the document FCCC/CP/2004/2 contain only the words “no change”.<sup>1</sup>

4. This addendum provides information on substantive and governance matters agreed by the Board during the reporting period. It is based on and needs to be read in conjunction with the reports of the sixteenth and seventeenth meetings of the Board as well as with detailed information on operational and procedural matters available on the UNFCCC CDM web site.<sup>1</sup>

5. The Chair of the Board, Mr. John Shaibu Kilani, will present the report and this addendum to the COP at its tenth session.

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

6. The COP, at its tenth session, may wish to take the following actions, in addition to those identified in document FCCC/CP/2004/2:

- (a) Review and take note of this addendum to the third annual report of the Executive Board (2003–2004) in accordance with the provisions of paragraphs 3 and 4 of the CDM modalities and procedures;

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<sup>1</sup> This web site serves as the central repository as it contains the reports of the meetings of the CDM Executive Board, including documentation on all matters agreed by the Board, notably regarding the registration of CDM project activities, the approval of methodologies, the accreditation and provisional designation of operational entities and the issuance of certified emission reductions (CERs). It also serves as the link to the CDM registry.

- (b) Consider annex I to this addendum containing a recommendation for amendments to the rules of procedure of the CDM Executive Board with a view to including, as appropriate, provisions in its decision on guidance to the Executive Board of the CDM;
- (c) Take note of developments relating to the registration of CDM project activities, accreditation of operational entities, the approval of new methodologies for baselines and monitoring and the CDM registry;
- (d) Provide guidance to the Board regarding the handling of projects which have implications for the achievement of objectives of other Conventions and Protocols and take any additional measures, as appropriate;
- (e) Make an urgent appeal to Parties to ensure that there are sufficient resources available to cope with the increased work load in 2005, bearing in mind that – apart from resources from the Kyoto Protocol Interim Allocation and fees from projects requesting registration – there is the possibility that Parties are reimbursed for their contributions at a later stage in accordance with paragraph 17 of decision 17/CP.7.

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

### **A. Accreditation process for operational entities**

#### 1. Mandate and background

7. No change.

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

8. During the reporting period of this addendum, the Board, assisted by its CDM Accreditation Panel (CDM-AP), continued the consideration of 25 applications from applicant entities (AEs) seeking phased accreditation and provisional designation by the Board so that they can eventually become designated operational entities (DOEs). No new accreditations were, however, granted so that the total number of recommendations to the COP remains, as previously reported, at four (see document FCCC/CP/2004/2).

9. In two cases, being at an advanced stage of consideration, the Board agreed that phased and sector-specific accreditation would not yet be granted: in one case because the applicant entity had changed its legal status and structure after the CDM-AT had finalized its work and, in the second case, because the witnessing had not been successful.

10. In another two cases, additional indicative letters were issued. The recipients are AZSA Sustainability Co. Ltd. (previously Asahi & Co.) and the Korea Energy Management Corporation (KEMCO). The Chair of the CDM-AP signed these letters on 13 November 2004.

11. The remaining applications for accreditation are at the following stages of consideration: four AEs, whose on-site assessments have taken place, are identifying/taking corrective actions, in accordance with the procedure for accreditation; for two other AEs, the dates for the on-site assessments have been confirmed; for three AEs, the dates for the on-site assessments are being planned; for three AEs, documentation was found to be incomplete and has been re-submitted by the AEs; and for three AEs, the desk review reports are being drafted. One application is at the initial stage of consideration.

12. No new applications have been received during the reporting period of this addendum. The total number therefore remains at 26 applications of which one has been withdrawn. Five applications from companies located in developing countries are among those under consideration.

13. Board, panel and assessment team members as well as the secretariat attended various workshops and meetings making presentations regarding the status of work of the Board, and on the processes to submit methodologies and apply for accreditation as a designated operational entity. In the area of accreditation, the secretariat attended the developing country committee of the International Accreditation Forum and International Laboratory Accreditation Cooperation and provided a status report to the joint general assembly of the two bodies so that the professional community was informed of developments.

14. The CDM-AP met twice during the reporting period for this addendum.

### **B. Methodologies for baselines and monitoring plans**

#### 1. Mandate and background

15. No change.

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

16. Since early September 2004, during the eighth round of submissions which was concluded on 28 October 2004, 21 new baseline and monitoring methodologies were newly proposed of which 19 were forwarded to the Board for its consideration. Together with the 66 methodology proposals received since calls for methodologies were first made in March 2003, this means that 85 methodologies – pertaining to a wide range of sectors and activities – have been accepted for consideration by the Executive Board over the last 20 months.

17. Nineteen baseline and monitoring methodologies have been approved by the Board to date of which the following four were approved during the reporting period of this addendum:<sup>2</sup>

- (a) AM0016: Greenhouse gas mitigation from improved animal waste management systems in confined animal feeding operations (source: NM0034 rev2);
- (b) AM0017: Steam system efficiency improvements by replacing steam traps and returning condensate (source: NM0017 rev);
- (c) AM0018: Steam optimization systems (source: NM0037 rev);
- (d) AM0019: Renewable energy project activities replacing part of the electricity production of one single fossil fuel-fired power plant that stands alone or supplies electricity to a grid, excluding biomass project activities (source: NM0053).

18. As reported in FCCC/CP/2004/2, one approved methodology (AM 0001 – Incineration of HCF 23 waste streams) was put on hold at the fifteenth meeting of the Board in September 2004. The methodology has since been undergoing revision. At its seventeenth meeting, the Board agreed on revisions to be incorporated in the methodology and will consider a final reformatted revision at its eighteenth meeting.

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<sup>2</sup> Approved methodologies are made available on the UNFCCC CDM web site:  
<<http://cdm.unfccc.int/methodologies>>.

19. The status regarding submitted methodologies proposals is currently as follows: of the 85 proposals for baseline and monitoring methodologies submitted in eight rounds – apart from the 19 approved ones (with one being on hold (AM 0001)) and the 19 proposals recently submitted and being at an early stage of consideration – 47 cases stand as follows: 25 have been denied approval and 22 are being processed. Updated information on submissions of methodologies and results of the consideration process can be found on the UNFCCC CDM web site.<sup>3</sup>

20. Subsequent to the development of the two consolidated methodologies ACM0001: “Consolidated baseline methodology for landfill gas project activities” and ACM002: “Consolidated baseline methodology for grid-connected electricity generation from renewable sources”, the Board adopted, during the reporting period of this addendum, a “Tool for the demonstration and assessment of additionality”<sup>4</sup>. This tool provides guidance to developers of projects and related methodologies. It is intended to facilitate their work, reduce transaction costs and be applicable to a wide range of project types but does not preclude developers to propose alternatives which satisfy the minimum requirements.

21. The Board is currently developing “Procedures for revision of proposed new methodologies” in order to operationalize provisions contained in paragraph 59 of the CDM modalities and procedures with a view to agreeing on a final version of such procedures at its eighteenth meeting.

22. The Board continued to elaborate measures to improve the process of consideration of methodologies leading to sound methodologies with appropriately wide applicability. It further adjusted its approaches and work processes, with a view to making its work on methodologies as efficient, cost-effective and transparent as possible, addressing the work load of its Methodologies Panel and making every effort to ensure that methodologies are considered in a timely and consistent manner. In pursuing these multiple objectives, the overriding concern of the Board is to ensure that processes are, as much as feasible, open to public scrutiny and broad expert input and that approved methodologies are of the highest quality possible, in accordance with the modalities and procedures for the CDM. The Board appreciates increased efforts by developers to improve the quality of methodology proposals and encourages this trend (see also resources for the work on the CDM).

23. The CDM Methodologies Panel (CDM Meth Panel) met twice during the reporting period. Apart from the work on the additionality tool, it continued its work to consider proposals of methodologies and provide recommendations to the Board.

### **C. Afforestation and reforestation project activities**

#### **1. Mandate and background**

24. No change.

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

25. Since the Board launched, in September 2004, its invitation to project participants to submit baseline and monitoring methodologies for afforestation and reforestation project activities under the CDM for its consideration, two proposals have been received.

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<sup>3</sup> See section on “Methodologies” on the UNFCCC CDM web site: <<http://cdm.unfccc.int/methodologies>>.

<sup>4</sup> The “Tool for the demonstration and assessment of additionality” and the consolidated methodologies are available on the UNFCCC CDM web site: <<http://cdm.unfccc.int/methodologies/PAMethodologies/approved.html>>.

26. The working group on afforestation and reforestation activities (A/R WG), established by the Board to consider such methodologies, has met once during the reporting period of this addendum<sup>5</sup>.

**D. Simplified modalities and procedures for small-scale clean development mechanism project activities**

1. Mandate and background

27. No change.

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

28. The Executive Board established a working group for assisting with reviewing proposed methodologies and project categories for small-scale CDM project activities (SSC-WG). Following a call for experts posted on the UNFCCC CDM web site, the Board appointed five (5) experts as members of this working group, including two nominees from the Methodologies Panel, taking fully into account the need for a high level of expertise and regional balance: Mr. Gilberto Bandeira De Melo, Mr. Felix Babatunde Dayo (member of Methodologies Panel), Mr. Binu Parthan, Mr. Daniel Perczyk (member of Methodologies Panel), Mr. Kazuhito Yamada.<sup>6</sup>

29. The SSC-WG has not yet met but will do so in early 2005.

**E. Matters relating to the registration of clean development mechanism project activities**

1. Mandate and background

30. No change.

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

31. Since the beginning of September 2004, five requests for registration of proposed project activities were received. Information regarding the status of these projects is available on the UNFCCC CDM web site<sup>7</sup>.

32. As of 18 November 2004, the project "Brazil NovaGerar Landfill Gas to Energy Project" has been registered as the first CDM project activity.

33. In accordance with the procedures for review as referred to in paragraph 41 of the CDM modalities and procedures, taking into consideration requests for review made by Board members, presentations made by the representatives of project participants and designated operational entities, the Board agreed to undertake a review for registration of the proposed CDM project activities "Project for GHG emission reduction by thermal oxidation of HFC 23 in Gujarat, India"; (0001) and "HFC Decomposition Project in Ulsan"(0003).

34. In order to facilitate the implementation of provisions contained in the document "Procedures for review as referred to in paragraph 41 of the modalities and procedures for the CDM", the Board, at its sixteenth meeting, provided clarifications to these procedures<sup>8</sup>.

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<sup>5</sup> For information on the A/R WG, refer to the section on "Panels/working groups" on the UNFCCC CDM web site: <<http://cdm.unfccc.int/Panels/ar>>.

<sup>6</sup> For information on the SSC WG refer to section on "Panels/working groups" in the UNFCCC CDM web site: <[http://cdm.unfccc.int/Panels/ssc\\_wg](http://cdm.unfccc.int/Panels/ssc_wg)>.

<sup>7</sup> See section on "Project activities" on the UNFCCC CDM web site: <<http://cdm.unfccc.int/Projects>>.

35. The Board agreed on clarifications on elements of a written approval and on revisions of the “CDM Glossary of terms” to incorporate these clarifications. The Board requested the secretariat to issue Version 02 of the “Guidelines for completing the project design document (CDM-PDD), the proposed new methodology: baseline (CDM-NMB) and the proposed new methodology: monitoring (CDMNMM)” and make it available on the UNFCCC CDM web site announcing its availability through the UNFCCC News facility.

36. The Board recognizes that the implementation of some types of CDM project activities may have implications on the achievement of objectives of other Conventions and Protocols (such as in the case of project activities connected to the production of HCFC 22 and the Montreal Protocol). The Board therefore requests guidance from the COP on how such project activities should be handled.

## **F. Clean development mechanism registry**

### **1. Mandate and background**

37. No change.

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

38. Following the selection by the secretariat of a vendor for the support of the registry, version 1 of the CDM registry was developed, tested and deployed in the secretariat at the end of November 2004. This registry is therefore ready, upon the request of the Board, to issue CDM credits and forward them to accounts within the registry for participants in the projects and to accounts which hold the share of proceeds for adaptation and administration (pending the determination of a percentage for the latter by COP/MOP once sufficient information is available to do so). Version 2 of the CDM registry, to be completed and deployed in May 2005, will then be ready to initialize its communications with the international transaction log (ITL) when it becomes operational.

39. This version 2 is to be fully compatible with the specifications developed for the exchange of data between registries and the ITL. Version 2 will also provide for transfers of credits to the registries of Annex I Parties, secure access by account holders to their accounts, the reconciliation of data with the ITL, and the generation of enhanced reports for account holders, the public and other users.

40. A framework agreement with the vendor for the development, deployment and operational support of the CDM registry has been established by the secretariat in order to ensure the availability of operational support services for an initial period of three years, including the provision of advisory, technical and training services.

41. The financial resources for the development, deployment and operational support of the CDM registry are currently provided by voluntary contributions to the UNFCCC Trust Fund for Supplementary Activities. Resource requirements for the CDM registry are estimated to amount to USD 335,092 for the development and deployment activities and a total of USD 200,000 for operational support activities over the three years of the framework agreement (2005-2007). Additional resources will be required for the operation of the CDM registry (e.g. hardware and software requirements and staff resources).

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

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<sup>8</sup> See section on “Reference/Procedures” on the UNFCCC CDM web site:  
<<http://cdm.unfccc.int/Reference/Procedures>>

1. Mandate and background

42. No change.

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

43. No change.

### III. Governance matters

#### A. Membership issues

44. No change.

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

45. No change.

#### C. Calendar of meetings of the Executive Board

46. There was no change to the calendar in 2004. The provisional calendar for 2005 is contained in Annex 7 of the report of the seventeenth meeting of the CDM Executive Board.

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

47. By its decision 21/CP.8, COP adopted the rules of procedure of the CDM Executive Board and encouraged the Board to keep these rules under review and, if necessary, to make recommendations, in accordance with paragraph 5 (b) of the CDM modalities and procedures, on any amendments or additions aimed at safeguarding its efficient, cost-effective and transparent functioning. This was reiterated by COP 9 in decision 18/CP.9.

48. The Board agreed, at its seventeenth meeting, to recommend to COP 10 amendments to the rules of procedure of the Executive Board as contained in annex I to this addendum. In order to incorporate provisions regarding dispute settlement and the use of Internet and e-mail listservs, COP 10 may wish to consider annex I to this addendum with a view to including such provisions in its decision on guidance to the Executive Board of the CDM.

49. The Board continued to implement the following central provisions of its rules of procedures whose implementation is central to the proper functioning of the CDM:

- (a) **Expertise in support of the work of the Executive Board (rule 32):** The Board continued to draw on expertise from panels, working groups and external experts.
- (b) **The role of the secretariat (rule 33):** The secretariat continued servicing the Board, its two panels and the two working groups, including the management of associated experts for specialized technical input (e.g. desk reviewers and assessment teams) and the continuous maintenance of the CDM information system and the UNFCCC CDM web site.
- (c) **The communications network (rules 24–26 and 32–33):** The UNFCCC CDM web site and the communications network have been continuously updated with latest information regarding the implementation of the CDM. During the reporting period of this addendum, a new extranet and a listserv were developed for the use of the SSC WG.
- (d) **Transparency and attendance (rules 26 and 27):** Bearing in mind decisions 21/CP.8 and 18/CP.9, the Board continued its efforts to improve its interaction with Parties, stakeholders and the public:
  - (i) At its sixteenth and seventeenth meetings the Board met with registered observers for informal briefings and has agreed to continue with such meetings in the afternoon of the last day of its future meetings. The Board will have a question-and-answer event in conjunction with COP 10 (7 December 2004).

- (ii) Communications received from Parties, IGOs and NGOs on an ad hoc basis continued to be reflected under the agenda item “other matters” and were considered by the Board as appropriate.
- (iii) Since its fifteenth meeting, the Board has launched calls for public inputs on the following issues it has deliberated upon:
  - Possible revision of approved methodology AM0001 “Incineration of HFC 23 waste streams” (for which 22 comments were received and considered by the Methodologies Panel and the Board);
  - Tools for the demonstration of additionality (for which 30 comments were received and considered by the Board).
- (iv) The meetings of the Executive Board continued to be made available via the Internet (live or as video-on-demand) to allow global access to comprehensive information on its activities and deliberations.
- (e) The Board continued to implement its practice of securing space sufficient to accommodate observers at its meetings. Taking into consideration the possibility that stakeholders may wish to observe Board meetings in case a proposed project activity of interest to them is under consideration, the Board agreed to increase, when necessary, the observer space to 70 seats. The trend in distribution and average attendance by observers has not changed. A total of 41 observers attended the sixteenth and seventeenth Board meetings.

#### **E. Observations by the Board on the work process on the CDM**

50. In order to put the CDM process on a sound footing, the Board has repeatedly analyzed the state-of-affairs and reviewed its procedures. Thus, bottlenecks could be identified and problems tackled in an early and pro-active manner. In this context, the Board has made a number of observations:

- (a) The basic assumption of the CDM process is that all actors are adhering to their roles and mandates and perform these in high quality. This is particularly important as the CDM involves operators at a global scale and across a wide range of sectors. A bottom-up process like the CDM, while producing results, implies that all actors, including the Board itself, are involved in a learning-by-doing process. The quality of actual delivery depends on individual actors’ level of knowledge of and dedication to the objectives of the CDM. While basic inputs are gradually improving, the Board considers further efforts on the part of project developers and DOEs to be essential for the CDM to function as intended. Experience has shown that deficiencies at the input stage are absorbing scarce resources for considering and “rescuing” poorly designed cases. With the number of cases in 2005 being expected to increase significantly, the Board intends to develop quality checking procedures, further to the existing ones.
- (b) The sheer increase in workload may put the CDM system to a test in 2005. Estimates of the number of days to be worked by Board and panel members suggest that the process cannot be effectively operated with the current level of financial and human resources. Apart from the need for additional financial resources (see chapter V below), the Board is therefore exploring a number of parallel measures to enable the system to cope:

- (i) Tier one is the strengthening of the Board. This implies increase in the number of Board meetings from five in 2004 to eight in 2005 (three being supported from the KPIA) and to expand the length of meetings (3 days plus one day for informal consultations); the exploration of video-conferencing and tele-conferencing, even though time zone differences pose problems; the full use by all members of the intranet system established by the secretariat. The increase in interaction is particularly important as the consideration of requests for the registration of projects and for the issuance of CERs requires quick screening and turn-around times. Members are also aware of high demands on their time in-between scheduled meetings. Given the expected increase in workload, some Board members consider that the proposed changes in frequency of meetings and alternative means for interaction may still not be sufficient. They are also concerned about the fact that all members are fully engaged in their regular jobs and that the time they can devote to the CDM is therefore limited;
- (ii) The second tier relates to the strengthening of work on methodologies. This implies measures to assist the Meth Panel process in rationalizing and accelerating the consideration of newly submitted methodologies. Currently, the flow of new submissions of methodologies remains strong in spite of the Board encouraging the use of existing and consolidated methodologies as well as increasing the scope of applicability. One approach to rationalize the process would be the introduction of fees for the submission of methodologies. Other options to cope with the caseload are the increase in staff resources in the UNFCCC secretariat to support the Meth Panel and the establishment of specialized working groups (e.g. for the energy sector) under the Meth Panel. This would have the advantage of facilitating the consideration of cases while ensuring consistency of approach. The establishment of a second Meth Panel is another possibility. Several members also feel that Meth Panel members could provide excellent input in assisting the Board in its consideration of requests for registration of projects but are aware of the additional work pressure arising therefrom;
- (iii) As a third tier, the Board attaches great importance to the ready availability of highly specialized expertise, on an ad hoc basis, and of adequate staff resources in the secretariat to enable it to perform the vast array of support functions and the role of CDM registry administrator;
- (iv) As a fourth tier, given the critical importance of the DOEs in the process, the Board considers their functioning in ensuring quality delivery to be essential. In this context, but also due to the expected increase in applications and quality checks, the workload of the CDM-AP and accreditation experts is also expected to grow;
- (v) Finally, the Board also wishes to stress the importance of coherence and consistency in its own work and that of the supporting panels and working groups. For this purpose, an internal workshop had been held in September. In addition, it is desirable, especially at this critical moment in the development of the CDM, to have an adequate level of continuity and stability in membership, bearing in mind that high rates of turnover may affect the quick delivery and integrity of the process.

## IV. Resources for the work on the clean development mechanism

### A. Mandate and background

51. No change.

### B. Work undertaken and action taken, including decisions, as appropriate

52. During the reporting period covered by this addendum, the Executive Board continued to monitor the resource requirements for work on the CDM and incoming resources. Based on reports by the secretariat at each of its meetings and bearing in mind significantly increased activity levels, the Board is concerned that the level of funding is not commensurate with the activity levels required. The attached table provides an overview of CDM-related budget information for 2004 and 2005.

#### 1. Resource requirements in the biennium 2004–2005

53. When COP 9 considered resources for work on the CDM in 2004-2005, requirements were estimated to be USD 5.23 million (including overhead and working capital reserve) to be covered from extra-budgetary sources and USD 1.32 million (excluding overhead and working capital reserve) to come from the Kyoto Protocol Interim Allocation if it takes effect on January 2005. As the entry into force of the Kyoto Protocol is on 16 February 2005, this latter amount needs to be proportionately adjusted to cover 320 days only.

54. Taking into account the extra resources required to compensate for the KPIA shortfall for the first 45 days of 2005, to develop version 2 and operate the CDM registry, to obtain additional expertise for methodological work and for the consideration of requests for registration and to increase the meeting time for the Board and panels to avoid backlog, total resources required for the year 2005 amount to approximately USD 4.5 million from voluntary contributions and USD 1.32 million from KPIA (both including overhead). The KPIA figure includes staff resources which had been frozen under the core budget previously. The increase in staff costs in US dollars experienced in 2004 as a result of the depreciation of the US dollar vis-à-vis the Euro are, however, not reflected.

#### 2. Expenditures in 2004 (until 30 November 2004)

55. During the first ten months of 2004, expenditures for undertaking operational activities for the CDM were distributed as follows: meetings of the Executive Board USD 247,282 (5 meetings); activities of panels and working groups, including one joint (internal) workshop, USD 735,516; and activities by the secretariat, including for the CDM information system and the CDM registry (version 1), USD 709,237. The total, including overhead costs, for the year 2004 is expected to be USD 1.912 million.

#### 3. Incoming resources from Parties and cost recovery schemes in 2004

56. During the reporting period covered by this addendum, in response to repeated calls by the Executive Board, resources additional to those referred to in the third annual report were pledged and/or received by Denmark, Germany and Norway. Since 1 January 2004 to date, an amount of USD 1.72 million has been pledged by Parties. Against these pledges, a total of USD 0.9 million was received in contributions. Fees for four additional requests for proposed project registration were received which brought the total amount to USD 0.175 million.

57. Total resources available to date in 2004, including a carryover from 2003 of USD 2 million, amount to USD 3.096 million.

#### 4. Resource requirements in 2005

58. The Board has, at its seventeenth meeting, reviewed the likely workload and corresponding process needs in 2005. The Board expects that the entry-into-force of the Kyoto Protocol on 16 February 2005, and the increasing interest in the CDM as a unique mechanism for global collaboration on climate change and sustainable development, are triggering a tremendous increase in its work in 2005.

59. With human resources in 2004 already having been stretched to the limit and with the adequacy of resources for carrying out the work in 2005 not being ensured, the Board is gravely concerned about the sustainability of the process. Notwithstanding the provision of resources under the KPIA, as had been agreed through decision 16/CP.9, and income to be expected from registration and accreditation fees (and from the share of proceeds for administration once there is a sound basis for its calculation), there is a pronounced need for continued voluntary contributions from Parties to support the prompt start of the CDM in 2005.

60. In order to allow the CDM to be operated in a planned and sustainable manner, the Board therefore recommends that the COP repeats its appeal to Parties to make contributions to the UNFCCC Trust Fund for Supplementary Activities for the remainder of the biennium 2004–2005. In this context, the Board wishes to draw attention to provisions contained in paragraph 17 of decision 17/CP.7, notably the possibility of Parties being reimbursed for their contribution at a later stage in accordance with a schedule to be recommended by the Board and agreed by the COP.

61. Based on currently available income and estimates for 2005 (as shown in the table below), the shortfall against existing resources in 2005 is approximately USD 3.3 million. If the effect of the US dollar depreciation against the Euro is, however, taken into consideration, the shortfall would reach USD 3.5 million.

62. The shortfall would, of course be reduced if contributions were effected against pledges currently amounting to USD 830,000. In addition, requests for registration of project activities will result in fees which may amount, on average to USD 10,000 per case. In order to be able to have appropriate resources in place when cases are submitted and need to be processed rapidly, the Board cautions, however, against expectations that such fees can solve the resource crunch in 2005. The CDM process will need to have reached a level of stability for such resources to be factored in as a reliable component.

	<b>Resource status for work on the CDM</b>	<b>Total (in million USD)</b>
Income in 2004	Carry-over from 2003 to 2004	2.021
	Fees for accreditation and registration Contributions from Parties	0.175 0.900
	<b>Total</b>	<b>3.096</b>
Expenditure in 2004	I. 5 meetings CDM EB (0.247) II. CDM Panels: 4 AP, 5 MP, 2 A&R (0.735) III. Activities by the secretariat: hardware, consultants, CDM registry (0.115), staff costs (0.280), GTA (0.272), staff-related costs (0.041)	
	<b>Total (incl. overhead)</b>	<b>1.912</b>
Income in 2005	Carry-over from 2004 to 2005	1.184
	Fees for accreditation and registration Contributions from Parties (pledges USD 830,000)	tbd tbd
Budget 2005	I. 5 meetings CDM EB (0.330) with 3 being KPIA funded II. CDM Panels and working groups (1.165) III. Workshop Art. 12.6 (0.200) IV. Activities by the secretariat: hardware, consultants, CDM registry (1.405), staff costs (0.493), GTA (0.290), staff-related costs (0.060)	
	<b>Total (incl. overhead)</b>	<b>4.455</b>
Current shortfall in 2005	Difference between budget 2005 and carry-over	3.271

## V. Summary of decisions

63. No change.

Annex

## **Draft proposed amendments to the rules of procedure of the CDM Executive Board**

### **I. Introduction**

1. By its decision 21/CP.8, the Conference of the Parties (COP) adopted the rules of procedure of the CDM Executive Board and encouraged the Board to keep these rules under review and, if necessary, to make recommendations, in accordance with paragraph 5 (b) of the CDM modalities and procedures, on any amendments or additions aimed at safeguarding its efficient, cost-effective and transparent functioning. The COP at its ninth session further encouraged the Executive Board to keep its rules of procedure under review 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 its efficient, cost-effective and transparent functioning;
2. The draft amendments to the rules of procedure of the Executive Board, contained in section II below, propose provisions regarding dispute settlement and the use of Internet and e-mail listservs.
3. The Conference of the Parties may wish to consider these proposed amendments with a view to agreeing on them at its tenth session.

### **II. Draft proposed amendments**

4. Section V (Voting), Rule 30: The new paragraph 4 would read as follows: “Any decision made using the procedure specified in paragraphs 1 to 3 of this rule shall be included in the report of the Board at its next meeting and shall be deemed to have been taken at the seat of the UNFCCC secretariat in Bonn, Germany”.
5. Section IX. Conduct of business: Add the following provisions as rule 38 bis: “The Executive Board, and the UNFCCC secretariat in its mandated role of support to the Executive Board, may use e-mail listservs and online Internet submission of documentation in response to relevant procedures.
6. The documentation submitted using online Internet submission is subject to the transparency and confidentiality provisions of the CDM modalities and procedures. In submitting any application, registration or other documentation through use of the UNFCCC CDM web site, the submitter shall acknowledge that he or she has read the relevant procedures and agree to be bound by the terms and conditions of submission of documentation, including with respect to the submitter’s sole responsibility the content of his or her submission and the waiver of all claims associated with use of the internet as a means of submitting and transmitting documentation.
7. The Executive Board shall not be made responsible for any claim or loss arising from the transmission or use of documentation obtained through on-line Internet submissions or e-mail listserv. Neither the confidentiality nor the integrity of the documentation submitted can be guaranteed following transmission on the Internet.”
8. Section IX. Conduct of business: Add the following provisions as rule 38 ter: “If attempts at settlement by negotiation will have failed, every dispute, controversy or claim arising out of, or in connection with, any decision of the Executive Board, including its panels and working groups, in the implementation of the CDM shall be submitted to arbitration in Bonn, which shall have exclusive

jurisdiction with respect to the same. The arbitration shall be conducted by a single arbitrator agreed to by both parties; if the parties are unable to agree on a single arbitrator within 30 (thirty) days of the request for arbitration, then each party shall appoint one arbitrator and the two arbitrators thus appointed shall agree on a third. Failing such agreement, either party may request the appointment of the third arbitrator by the President of the Permanent Court of Arbitration. The decision rendered in arbitration, including any allocation of costs of the arbitration between the parties, shall constitute final adjudication of the dispute and shall be binding upon the parties.”

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