

8 October 2010

The Chairman and the Members of the CDM Executive Board
c/o UNFCCC Secretariat
P. O. Box 260124
D-53153 Bonn, Germany

RE: Public inputs on the draft “Procedures for regarding the correction of significant deficiencies and the excess issuance of CERs

Dear Sir/Madam;

We welcome efforts made by the Executive Board to address the issues regarding the correction of significant deficiencies and the excess issuance of CERs. While accepting that DOE may be one of the major parties responsible for excess issuance, it should be recognized that the PP also shares that responsibility. Keeping the above in consideration, the following response has been prepared:

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

Overall, the draft procedure follows the CMP decisions, specifically on paragraph 24 and paragraph 8 of Appendix under Decision 3 of CMP 1. However, the draft procedure does not comply with the first line of the paragraph 22 under Decision 3 due to the following observation.

According to the draft procedure, audits of validation, verification and certification reports are supposed to be conducted by the CDM-AT for all DOEs whose accreditation have been suspended or withdrawn. This initial audit itself by the CDM-AT will obviously affect all registered project activities including the one that has no significant deficiencies and the excess issuance of CERs as a result. Practically, all requests for CER issuance which are in the process will be looked at with suspicion for the entity whose accreditation has been suspended or withdrawn and is under audits for deficiencies and excess issuance of CERs. Therefore, the draft procedure particularly under audits of validation, verification and certification reports will significantly result in the delay of issuance of CERs for registered project activities, which does not comply with the Decision 3 of CMP1.

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

The decision of the CMP 1 as well as the draft procedure does not fully address possible fraud or deficiency caused by PPs and how to distinguish those from the works undertaken by the DOEs. In addition, this process does not really provide how to determine exact amount of excess issuance of CERs from only reviews on validation, verification or certification report. Excess issuance of CERs may be also caused by specific deficiencies due to the applied methodologies or devious information provided by PPs. Therefore, a root cause analysis is suggested to be conducted as part of the audits by the CDM-AT under the current draft procedure. In case that the CDM-AT

concludes that the significant deficiencies or excess issuance of CERs is not caused by the works undertaken by the DOEs, the Board may decide to minimize the workloads for subsequent reviews by another DOE before appointment of another DOE.

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

Obviously, the validation and verification process is expected to become longer, since all DOEs may become overcautious in the process in order to avoid any deficiency or excess of issuance of CERs, which may result in delays of issuance and delivery of CERs.

Further, the validation and verification fee may be increased. There is a possibility that DOEs may want to shift the responsibility of deficiency to PPs and increase the cost as a guarantee to enter more stringent registration or issuance process.

Paragraph 22 of the Decision 3 stipulates that only different DOEs can be appointed for review on significant deficiencies in the relevant validation, verification or certification report. However, this action induces additional workload to appointed DOEs without clear guideline and time schedule for the submission of opinion to be completed. Since there is also uncertainty regarding when the secretariat will determine the completion of the opinion for review, there would be no DOEs who are willing to involve this process.

Price of CERs may be more volatile. CERs after issuance is perceived as an end product without any remaining risks in the CDM process, which makes relatively easier to determine the price upfront. However, once the procedure is adopted, the issued CERs may still have a risk of non-delivery due to a possibility to be later turned out excess CERs. This may make buyers consider the risk during the negotiations and quote lower prices.

- (d) Specific suggested revisions to the decisions of the CMP and the draft procedure that would lessen the market impact, while upholding the general principle that excess-issued CERs should be replaced;

As already pointed out, a root cause analysis have to be conducted as part of the audits by the CDM-AT and the procedure particular on the reviews by the appointed DOEs can be minimized or completed in case where the deficiencies or excess issuance of CERs are not caused by the DOEs. This root cause analysis shall determine, besides the reasons for excess issuance, the share of responsibility for the same between the PP and the DOE. The responsibility of compensation shall be fixed in proportion to this. This procedure is fare to both PP and DOE and by doing so; unnecessary delays in issuance of CERs can be avoided.

In order to avoid any confusion in the market by cancellation of already issued CERs retroactively, the following procedure is suggested. In case that excess issuance of CERs is identified from the past issuance record from the registered project activity that has already received several issued CERs (sometimes it may have been already transferred to the retirement account in the national registry), it is suggested that the PPs will decide whether they will immediately transfer the excess issued CERs to the cancellation account or compensate from the future issuance process, which will be

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conducted by another DOE, by deducting equivalent amount of CERs. By doing so, market impact on the price of CERs (e.g., caused by the compensation from the retirement account), can be limited and more predictable to some extent.

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

In case deficiency or excess issuance of CERs is found out due to false or misleading information provided by PPs, it is suggested that such PPs may be debarred from conducting any new CDM project activities for a certain period (e.g. for one year). In case those PPs have projects under validation or in the request for issuance, it is also suggested that those requests will be automatically undertaken review by the CDM EB before registration or issuance of CERs.

We would greatly appreciate if the CDM Executive Board could consider above mentioned inputs.

Sincerely yours,

Jiwan Acharya

Climate Change Specialist

Regional and Sustainable Development Department

Asian Development Bank

Tel +63 2 632 6207

jacharya@adb.org