



# **Post Implementation Review of Part 3 of the Greenhouse Gas Emissions Trading Scheme (Amendment) and National Emissions Inventory Regulations 2005**

Presented to Parliament  
by the Secretary of State for Energy and Climate Change  
by Command of Her Majesty

March 2016



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## INTRODUCTION

This document provides an overview of the Post Implementation Review (“PIR”) of Part 3 of the Greenhouse Gas Emissions Trading Scheme (Amendment) and National Emissions Inventory Regulations 2005 (S.I. 2005/2903) (the “Regulations”) (hereafter: “Part 3 of the Regulations” or “Part 3”). Part 3 governs the process for submitting and approving applications for participation in the Kyoto Protocol project mechanisms (the Clean Development Mechanism (“CDM”) and Joint Implementation (“JI”)).

Part 3 of the Regulations was introduced in 2005, when the UK opted to implement a part of the Kyoto Protocol that aims to assist countries and the private sector to reduce emissions: CDM and JI. Projects developed under the CDM or JI offer countries a flexible and cost-efficient means of driving emissions reductions or meeting part of their emissions targets under the Kyoto Protocol, while the host country benefits from foreign investment and technology transfer.

This PIR is required by regulation 3 of the Greenhouse Gas Emissions Trading Scheme (Amendment) (Fees) and National Emissions Inventory Regulations 2011 (S.I. 2011/727). This Command Paper and associated PIR (see page 11) evaluate the effectiveness of our actions and decisions now that Part 3 of the Regulations has been operational for a period of time. As the focus of Part 3 is relatively narrow, the initial impact assessment did not specifically cover it. Where there are quantitative assumptions available, we address those, otherwise we engage in a qualitative discussion of the anticipated objectives of Part 3 and its actual achievements. We cover:

- The evidence used and how it is assessed;
- The extent to which Part 3 is achieving its objectives;
- To the extent possible, the impacts and associated costs compared to initial assumptions;
- Whether there have been any unintended consequences.

## 1) BACKGROUND

The Kyoto Protocol creates a framework whereby parties to the Protocol and private investors can invest in projects which reduce carbon emissions and generate carbon credits which can in turn be used for meeting carbon reduction obligations under the Protocol. Participation in these project activities must be approved by the country hosting the project and by a second developed country. Such approval is granted by entities called “Designated National Authorities” (“DNA”) and “Designated Focal Points” (“DFP”) depending on the type of project. EU law also imposes various obligations in relation to the way in which such approval functions are exercised.

## **The Kyoto Protocol project mechanisms – the CDM<sup>1</sup>**

The CDM is defined in Article 12 of the Kyoto Protocol and allows entities to undertake projects in countries that are party to the Protocol but do not have an emissions target, to reduce greenhouse gas emissions and contribute to sustainable development.

To take part in the CDM, countries must establish a DNA, which is a regulatory body responsible for issuing letters of approval (“LOAs”) for CDM project activities. Project proponents must secure two LOAs: an LOA from the DNA of the host country, where the project will take place, and an LOA from a DNA in a developed country. Part 3 relates to the latter and covers the UK’s role in issuing LOAs.

## **The Kyoto Protocol project mechanisms – JI<sup>2</sup>**

JI is a mechanism defined in Article 6 of the Kyoto Protocol that allows entities to undertake projects in countries that are party to the Protocol and have an emissions target, in order to reduce greenhouse gas emissions.

To take part in JI, countries are required to establish a DFP, which is a regulatory body responsible for issuing LOAs relating to JI project activities. Project proponents must secure a LOA from the DFP of the host country and from the DFP of a developed country. Part 3 covers the UK’s role in issuing an LOA.

### **Box 1 – treatment of CDM and JI in this Command Paper and PIR**

Throughout this PIR we have used all available evidence, on CDM applications as well as JI applications, but we have treated the two mechanisms together as Part 3 provides a common process for both mechanisms.

The EA adopts the same process when determining CDM and JI applications, although there are small variations in the detailed checks undertaken to reflect differences between the CDM and JI mechanisms. For example, there are two tracks of JI projects, one of which may be verified by the host party itself, the other needs to be verified independently. The EA’s role is to only issue LOAs to applicants that provide the correct document proving that this verification has taken place.

## **UK DNA and DFP**

The UK DNA and DFP were established in 2004. Originally, the Secretary of State for the Environment, Food and Rural Affairs acted as the DNA for the CDM and the DFP for JI, granting LOAs for projects. Following the creation of the Department of Energy and Climate change this function transferred to the Secretary of State for Energy and Climate Change. Since 1 June 2011, this function has been conferred on

<sup>1</sup> For further information about the CDM and the CDM project cycle please refer to:

<http://cdm.unfccc.int/about/index.html>. Further details of the agreed rules governing the Clean Development Mechanism are laid out in the Marrakech Accords, which can be found at the following link:

[http://unfccc.int/cop7/documents/accords\\_draft.pdf](http://unfccc.int/cop7/documents/accords_draft.pdf).

<sup>2</sup> For further information about JI and the JI project cycle please refer to: <http://ji.unfccc.int/index.html>.

Further details of the agreed rules governing the Joint implementation are laid out in the Marrakech Accords, which can be found at the following link: [http://unfccc.int/cop7/documents/accords\\_draft.pdf](http://unfccc.int/cop7/documents/accords_draft.pdf).

the Environment Agency (“EA”) for most applications. The Secretary of State has, however, retained the ability to “call in” applications for determination. The Secretary of State is most likely to exercise this power in respect of applications which are novel, contentious or controversial or which relate to large scale hydro-electric projects.

As the DNA and DFP, the EA is responsible for determining applications and issuing LOAs for projects in accordance with international, EU and domestic requirements. These requirements include Articles 6 and 12 of the Kyoto Protocol, the Marrakech Accords, the Emissions Trading Directive (Directive 2003/87/EC, as amended) and the Regulations, which is the domestic legislation governing the DNA and DFP processes in the UK. Part 3 of the Regulations lays out the process for making an application for a CDM or JI project to the UK DNA/DFP; the period of time within which a determination must be made on a CDM or JI application; and the right of applicants to appeal a decision. The penalties applied to those who knowingly provide false or misleading information in relation to a CDM or JI application are set out in Part 6 of the Regulations and, as such, are not covered by this PIR.

### Summary of the development of Part 3 of the Regulations

Table 1

Piece of legislation	Policy
<b><i>The Greenhouse Gas Emissions Trading Scheme (Amendment) and National Emissions Inventory Regulations 2005 (S.I. 2005/2903) as originally made in October 2005</i></b>	<p>These Regulations (as originally drafted) set out the process and requirements for project approval, including:</p> <ul style="list-style-type: none"> <li>- The process for applying for a LOA.</li> <li>- The role of the Secretary of State in determining applications; Part 3 of the Regulations provided that the Secretary of State would make approval decisions within a period of two months.</li> <li>- The right of the Secretary of State to seek further information in making approval decisions and to require independent verification of information provided.</li> <li>- The right for applicants to appeal to the Secretary of State in certain circumstances. As part of this, the Secretary of State had the power to appoint a third party to consider the appeal/certain issues in an appeal and make recommendations to the Secretary of State.</li> <li>- Created a criminal offence for applicants who knowingly or recklessly supplied false information in connection with an application for a LOA</li> </ul>
<b><i>The Greenhouse Gas Emissions Trading Scheme (Amendment) (Fees) and National Emissions Inventory Regulations 2011 (S.I. 2011/727)</i></b>	<p>These Regulations amended Part 3 to:</p> <ol style="list-style-type: none"> <li>1. Provide that the EA should determine applications for LOAs under Part 3 from 1st June 2011, save in cases where the Secretary of State “calls in” the application. As noted above, this is most likely to apply where the application relates to a novel, contentious, controversial or large hydroelectric project.</li> <li>2. Require all applications for a LOA under Part 3 to be</li> </ol>

accompanied by a fee specified in the Regulations. This provision ceased to have effect on 6 April 2012, after a power to charge fees was conferred on the EA by the Greenhouse Gas Emissions Trading Scheme (Amendment) (Registries and Fees etc) Regulations 2011 (S.I. 2011/2911).

***The Greenhouse Gas Emissions Trading Scheme (Amendment) and National Emissions Inventory Regulations (Amendment) 2014 (S.I. 2014/3075)***

These Regulations:

3. Revised the appeals process to transfer the function of determining appeals relating to CDM and JI project applications from the Secretary of State to the First-tier Tribunal; and introduced a new right of appeal in connection with the civil penalty mentioned below.
4. Abolished the criminal penalty relating to the provision of false/misleading information, replacing it with a civil penalty. As noted above, this is outside of Part 3.

**Summary**

**Under the current version of Part 3 of the Regulations the EA determines applications and imposes fees in connection with those applications. The Secretary of State for Energy and Climate Change retains a residual power to call in applications. Applicants can appeal application decisions to the First-tier Tribunal.**

## 2) SUMMARY OF PART 3'S OBJECTIVES

The objective of Part 3 of the Regulations is to ensure that there is an efficient and effective system for the assessment of applications for, and the issuing of, LOAs for the Kyoto Protocol project mechanisms. It also has to meet the requirements of the Emissions Trading Directive (as amended), the Marrakesh Accords and the Kyoto Protocol.

Initially, we considered that this would be best achieved through the Secretary of State determining applications.

In 2011 due to the increase in applications we amended Part 3 of the Regulations to introduce fees for applicants, aiming to recover costs from processing applications. The volume of applications was expected to rise until 2013 when the use of CDM-generated emissions reductions units in the EU Emissions Trading System<sup>3</sup> was restricted (see Figure 1 for number of project registrations).

At the same time the delivery function of processing standard applications was transferred to a delivery body, the EA. This was expected to increase delivery efficiency. The Secretary of State retains the ability to "call in" applications, in case they could have policy implications (which, as noted above, is most likely to be the case for novel, contentious, controversial or large hydroelectric projects). As the EA

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<sup>3</sup> This restriction had a significant effect on the CDM market: the EU Emissions Trading System had been the main source of demand for CDM credits. The restriction was the main cause of the sharp fall in CDM project registrations from 2012 to 2013 (see also Annex 2 to the PIR, attached).

was dealing with the majority of applications, we transferred the power to set charges to them from 2012.

In 2014, we revised the appeals process so that, from early 2015, appeals would be heard by the First-tier Tribunal. We felt that this was a more proportionate approach.

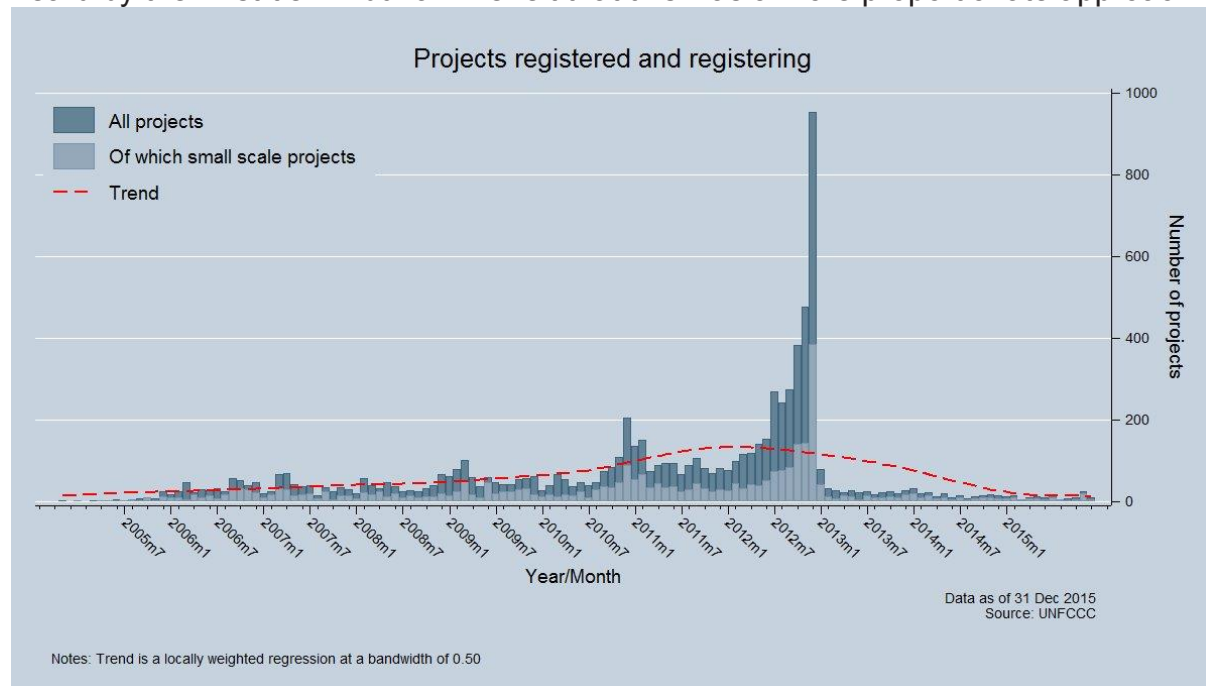


Figure 1: UNFCCC diagram showing registered and registering projects over 2005-2015; Source: <https://cdm.unfccc.int/Statistics/Public/files/201601/regnum.pdf>

### 3) SCOPE OF THIS PIR

The scope of this PIR is to review the extent to which we have put in place an efficient and effective system for the assessment and issuing of project approvals as per Part 3 of the Regulations<sup>4</sup>. In doing so, this PIR takes into account the amendments made to Part 3 since 2005. Specifically, as per the review provision (contained in regulation 3 of the Greenhouse Gas Emissions Trading Scheme (Amendment) (Fees) and National Emissions Inventory Regulations 2011 (S.I. 2011/727), this PIR will:

- i) set out the objectives intended to be achieved by the regulatory system established by those provisions
- ii) assess the extent to which those objectives have been achieved
- iii) compare, as far as is reasonable, and assess the implementation of European obligations with the implementation in other Member States; compare the implementation of European obligations in Article 11b and Article 18 of the Emissions Trading Directive with the implementation of those obligations in other Member States; include an assessment of the comparison between implementations;
- iv) assess whether those objectives remain appropriate and, if so, the extent to which they could be achieved with a system that imposes less regulation.

<sup>4</sup> The remainder of these Regulations (which largely relates to a different policy area) will be subject to a separate review in 2017.



#### 4) ASSESSMENT OF THE OPTIONS AVAILABLE TO IMPLEMENT PART 3

The objective of Part 3 of the Regulations is to ensure that there is an efficient and effective system for the assessment and issuing of project approvals for the Kyoto Protocol project mechanisms. Therefore, when implementing Part 3, Government had an obligation to ensure the requirements of the Emissions Trading Directive (as amended), the Marrakech Accords and the Kyoto Protocol were met, although there was some flexibility regarding the implementation of the detailed arrangements. The impact assessment for the Regulations and subsequent impact assessments do not set out different options for implementing the approvals system. Rather, we started with a light-touch process and adapted it over time, with the benefit of operational experience, to make it more efficient and effective. Examples of such process changes include:

- The transfer of the function of determining applications from the Secretary of State to the EA, subject to an ability for the Secretary of State to call in applications.
- The transfer of appeals against the refusal of an application for a LOA or against any conditions attached to it to the First-tier Tribunal. Government consider this appeals process to be a more cost-effective and proportionate appeals mechanism.

#### 5) COST-BENEFIT ANALYSIS

Impact assessments carried out for the Regulations did not specifically address costs or benefits of Part 3, except when Government introduced application fees. There the benefits were based on cost-recovery (£70,000 per annum), and administrative reductions to government. In addition, a more efficient delivery service was expected as the majority of approvals were to be processed by a delivery body, rather than a government department which focuses on policy decisions. Costs for business were estimated to be minor, i.e. UK fees were estimated to be less than 5% of total application process costs. These fees are not designed to create an additional social cost, they are designed to recover the costs incurred when assessing applications – several other European countries charge fees similar or higher to UK fees (for details, please see section 4 of the PIR, and Table 6 in Annex 1 to the PIR).

The World Bank estimates an average price of US\$11.77 over 2002-2011<sup>5</sup> for emissions reduction credits generated under the Clean Development Mechanism. Based on this price, an example project would have earned approximately US\$ 4.8 million in carbon revenues. In a stakeholder consultation carried out at the time, respondents were content with our assessment that UK fees were low and proportionate.

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<sup>5</sup> The price is for one tonne of CO<sub>2</sub>. See page 35 of the *State and Trends of Carbon Pricing*, World Bank Group and Ecofys, 2015, available here: <http://www.worldbank.org/content/dam/Worldbank/document/Climate/State-and-Trend-Report-2015.pdf>.

## 6) NEXT STEPS FOR PART 3 AND CONCLUSION

Government has considered, and is regularly considering, on a working level, whether an efficient and effective system to assess applications and issue project approvals could be provided with less regulation. The assessment process that the EA performs derives from international agreements, and cannot be reduced further. For the reasons set out in the attached PIR, it is considered that the current arrangements remain best suited to meet the objectives of Part 3. At present, Government sees no opportunity to achieve the objectives of Part 3 of the Regulations with less regulation.

It is proposed for Part 3 of the Regulations to remain unchanged until the next review cycle, or until updated international requirements come into force, whichever is sooner.

## ANNEX 1 – POST IMPLEMENTATION REVIEW

<p><b>Title:</b> Post Implementation Review of Part 3 of the Greenhouse Gas Emissions Trading Scheme (Amendment) and National Emissions Inventory Regulations 2005 (S.I. 2005/2903) <b>IA/PIR No:</b> RPC-DECC-3269(1)</p> <p><b>Lead department or agency:</b> DECC</p> <p><b>Other departments or agencies:</b> Environment Agency</p> <p><b>Contact for enquiries:</b> Victoria Volossov, International Climate Change, 0300 068 5068</p>	<p style="text-align: center;"><b>Post Implementation Review</b></p> <p><b>Source of intervention:</b> EU Directive 2003/87/EC (as amended), the Kyoto Protocol and the Marrakech Accords</p> <hr/> <p><b>Type of regulation:</b> Statutory Instrument</p> <hr/> <p><b>Type of review:</b> Statutory - other</p> <hr/> <p><b>Date of implementation:</b> 06/04/2011</p> <hr/> <p><b>Date review due:</b> 06/04/2016</p> <hr/>
<p><b>Summary</b></p>	<p>RPC: Green</p>

<p><b>1a. What were the policy objectives and the intended effects? (If policy objectives have changed, please explain how).</b></p> <p>This Post Implementation Review covers Part 3 of the Greenhouse Gas Emissions Trading Scheme (Amendment) and National Emissions Inventory Regulations 2005 (S.I. 2005/2903) (the Regulations) (hereafter: Part 3 or Part 3 of the Regulations). Part 3 governs the process for submitting and approving applications for participation in the Kyoto Protocol project mechanisms. It requires the Environment Agency to assess and approve applications to participate in the Clean Development Mechanism (CDM) and Joint Implementation (JI) projects. CDM and JI are United Nations crediting mechanisms for projects which reduce greenhouse gas emissions; they are defined in the Kyoto Protocol.</p> <p><b>The Kyoto Protocol mechanisms</b> Parties to the Kyoto Protocol and private investors can finance projects which reduce carbon emissions and generate carbon credits, which can in turn be used for meeting carbon reduction obligations under the Protocol. Participation in these project activities must be approved by the Parties involved. Such approval is granted by entities called “Designated National Authorities” and “Designated Focal Points” depending on the type of project. EU law also imposes various obligations in relation to the way in which such approval functions are exercised.</p> <p><b>The Clean Development Mechanism</b> The CDM is defined in Article 12 of the Kyoto Protocol and allows entities to undertake projects in developing countries that are party to the Protocol but do not have an emissions target, to reduce greenhouse gas emissions and contribute to sustainable development. The projects generate Certified Emissions Reduction units which may be traded internationally and used to meet other countries’ international targets. To take part in the CDM, a country must establish a ‘Designated National Authority’ (DNA), which is a regulatory body responsible for issuing letters of approval (LOAs) for CDM project activities. In the UK the DNA is the Environment Agency. Project proponents must secure two letters of approval: one from the DNA of the host country where the project will take place, and one from a DNA in a developed country (applicants can choose freely in which participating developed country they apply for approval). Part 3 relates to the latter and covers the UK’s role in issuing letters of approval.</p>
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## Joint Implementation

JI is a mechanism defined in Article 6 of the Kyoto Protocol that allows entities to undertake projects in other developed countries that are party to the Protocol and have an emissions target, in order to reduce greenhouse gas emissions<sup>6</sup>. JI projects generate Emissions Reduction Units which may be traded internationally and used to meet other countries' international targets. To take part in JI, a country must establish a "Designated Focal Point" ("DFP"), which is a regulatory body responsible for issuing a letter of approval relating to JI project activities. In the UK the DFP is the Environment Agency. Project proponents must secure a letter of approval from the DFP of the host country and from the DFP of a developed country (applicants can choose freely in which participating developed country they apply for approval). Part 3 covers the UK's role in issuing an LOA.

## Letter of Approval

CDM and JI projects must receive an LOA from an Annex I country before credits are issued and transferred into their official account ("registry account"). An LOA constitutes the authorisation by a DNA/DFP of an entity's/entities' participation as project proponents in a CDM or JI project. The UK DNA/DFP reviews applications against the relevant CDM and JI rules and legislation, and decides whether or not to issue an LOA.

Only Part 3 of the Regulations is due for review now, and thus this PIR considers only Part 3 of the Regulations. The remainder of these Regulations (which largely relates to a different policy area<sup>7</sup>) will be subject to a separate review in 2017.

The objective of Part 3 of the Regulations is to **ensure that there is an efficient and effective system for the assessment and issuing of project approvals**. Although Part 3 has been amended and changed over time, the policy objective remains unchanged. Part 3 of the Regulations covers:

- i) applying for approval and authorisation to participate in a Kyoto Protocol project mechanism in the form of a Letter of Approval ("LOA");
- ii) the ability of the Environment Agency ("EA") to serve a notice asking applicants for more information;
- iii) determination of applications;
- iv) seeking the agreement of the devolved administrations in connection with certain applications;
- v) the duty on the EA to consult the Secretary of State in respect of certain applications and the ability of the Secretary of State to "call in" applications; and
- vi) appeals relating to application determinations.

In the course of this PIR we will address Part 3 in its entirety and whether the process for applying for and granting LOAs has worked efficiently and effectively.

### **1b. How far were the objectives and intended effects expected to have been delivered by the review date? If not fully, please explain expected timescales.**

We expected to deliver fully the objective of Part 3 by the review date, i.e. to operate an efficient and cost-effective assessment and approval scheme for applications for LOAs in the UK. Part 3 of the Regulations sets out the process for applying for a LOA and puts the EA in charge of assessing applications, with a residual right for the Secretary of State to call in applications. This is most likely to be used in the case of novel, contentious and controversial<sup>8</sup> applications and large hydro applications, in respect of which the EA has a duty to consult the Secretary of State. Part 3

<sup>6</sup> The difference from CDM is that JI projects take place in a developed country, whereas CDM projects take place in a developing country (as listed in Annex 1 to the Kyoto Protocol).

<sup>7</sup> The remainder of the Regulations addresses the use of credits from CDM and JI in the European Union Emissions Trading System.

<sup>8</sup> An example of a controversial application which the Secretary of State called in is a project to capture methane from coal mines in North Korea, for which the UK issued no LOA in the end.

also sets out that the EA can request further information from applicants. Since 2011, all applications except those for projects in Least Developed Countries have had to pay an application fee. Since April 2012 the EA has set and charged application fees. (The separate legislation which enables the EA to charge fees for applications made under Part 3 of the Regulations from April 2012 is the subject of a separate review provision and so is not within scope of this PIR.)

**2. Describe the rationale for the evidence sought and the level of resources used to collect it, i.e. the assessment of proportionality.**

Part 3 of the Regulations covers the process for applying for and determining applications for LOAs in connection with projects under the Kyoto Protocol crediting mechanisms (the Clean Development Mechanism and Joint Implementation). The total cost of delivering this function is around £70,000 per year. Part 3 of the Regulations governs the implementation of a service which stakeholders who wish to undertake a CDM or JI project have a choice in which participating developed country they seek approval.

As this is a low cost, low impact element of the overall policy, we carried out a light-touch PIR without a formal stakeholder consultation. The main reasons for this are:

- a. Overall, this is a low-cost policy: up to £70,000 per year. This is based on the evidence that processing applications requires one full-time equivalent member of staff.
- b. In 2011, Part 3 introduced a charge for applications, but that cost is low (between £250-£700 per application), and typically accounts for under 5% of all administrative costs that applicants face through the UN application process (see Table 1 below, and for carbon revenues see Box 1 below). The decision to impose fees resulted in moving a cost from the UK taxpayer to the businesses that use the service.
- c. The UK is the overall leader in registered applications – this did not change when fees were introduced or when the function of determining applications was transferred to the EA. Since the introduction of fees the share of applications made in the UK relative to others has risen. This may indicate that applicants are not put off by the UK's charges for applications. Of the six countries that process the most CDM/JI applications, two countries charge fees similar to or higher than the UK's fees (for a comparison, see Annex 1).
- d. Overall application numbers have declined sharply (see Annex 2 for evidence on the decline of application numbers overall), due to a collapse in demand primarily because of greater restrictions being placed on the use of Kyoto units in the EU Emissions Trading System (EU ETS), which led to a global fall in prices from £17 per unit in 2008 to £0.3 in 2013. This market development led to a decline in the number of applications overall, including in the UK (see Table 4 and Annex 2). We do not expect an increase in applications in the short term<sup>9</sup>.

<sup>9</sup> Successful applicants receive accredited units over time, as they reduce emissions. However, the Kyoto Protocol commitment period ends in 2020, and the continuation of CDM and JI is unclear after that. As we get closer to 2020, it becomes less and less attractive to apply under the Kyoto project mechanisms, as projects would generate emissions reductions beyond 2020 but without certainty of receiving accredited units in return.

**Box 1 – treatment of CDM and JI in this PIR**

Throughout this PIR we have used all available evidence, on CDM applications as well as JI applications, but we have treated the process as one single process, as Part 3 provides a common process for both mechanisms.

The EA adopts the same process when determining CDM and JI applications, although there are small variations in the detailed checks undertaken to reflect differences between the CDM and JI mechanisms. For example, there are two tracks of JI projects, one of which may be verified by the host party itself, the other needs to be verified independently. The EA's role is to only issue LOAs to applicants that provide the correct document proving that this verification has taken place.

**Table 1, approximate CDM registration costs**

UK application fees account for only a small proportion of the overall administrative cost of applying for CDM/JI. The table below shows an estimate of the costs that applicants face when registering a CDM/JI project, apart from DNA/DFP fees. The UK DNA/DFP fees (£0, £250 or £700 depending on the type of project application and its location<sup>10</sup>) are relatively small when compared to the other costs involved in registering projects (see table below).

**Other costs involved in registering CDM and JI projects - Approximate up-front costs in US \$ in 2010**

**Costs are given in US \$ as this is a United-Nations administered international process**

**Project preparation**

- Project assessment cost	5,000
- Document preparation cost	40,000-50,000
- Validation	30,000-50,000
- Legal cost	3,000-5,000

**Registration fees**

Calculated per credit (i.e. per tonne of emissions reduced; may be adjusted over the years in line with internationally negotiated guidance, varies for example by number of credits issued)

**Monitoring costs**

- Verification	10,000-20,000 every two years
- Monitoring	10,000-20,000 every two years

**Issuance fees**

- Levied except in case of Least Developed Countries	2% of issued Certified Emissions Reductions
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Based on source:

[https://www.ashden.org/files/pdfs/reports/Carbon\\_finance\\_guide.pdf](https://www.ashden.org/files/pdfs/reports/Carbon_finance_guide.pdf), 2010

<sup>10</sup> JI projects and large hydroelectric power projects pay fees of £700 for obtaining an LOA, all other CDM applications pay fees of £250, and applications from projects in Least Developed Countries pay no fees.



### **3. Describe the principal data collection approaches that have been used to gather evidence for this PIR.**

- **What forms of monitoring data were collected?**

In line with the light-touch approach to this PIR, we collected data to assess to what extent Part 3 of the Regulations has created an efficient and cost-effective system for the assessment and issuing of project approvals. For this purpose we have collected:

- Administrative data sourced from the EA on:
  - Application fees
  - Duration of assessment (whether applications are processed within the period provided for in Part 3 of the Regulations).
- Discussion and research on stakeholder views (with EA; review of existing feedback from companies, desk-based research about other European countries) gathered from:
  - Customer surveys as available from the Environment Agency;
  - An informal online survey, sent out to all CDM and JI stakeholders who have been in contact with the DNA/DFP. Please see Annex 3 for survey questions. The response rate was very low (around 1% of those contacted). This corresponds to the predicted very low level of interest from business.

- **What evaluation approaches were used? (e.g. impact, process, economic)**

As this is a light-touch review, evaluation advisers' guidance is that a formal evaluation would be inappropriate and not an efficient use of resources.

- **How have stakeholder views been collected? (e.g. feedback mechanisms, consultations, research)**

In keeping with a light-touch review, we conducted an informal online stakeholder survey. In addition, we have synthesised examples of stakeholder feedback relating to the level of service provided in co-operation with the EA.

We have referred to existing evidence, such as the stakeholder consultation held in June 2014<sup>11</sup>, when the function of hearing and determining appeals was transferred to the First-tier Tribunal and the system of criminal sanctions for offences relating to CDM and JI applications was replaced with a civil penalty scheme.

We have also used evidence from the United Nations Framework Convention on Climate Change page on project mechanisms, which lists for example total numbers of registered projects. This was useful to compare total numbers of registered projects which applied in the UK with those which had applied in other developed countries.

### **4. To what extent has the regulation achieved its policy objectives? Have there been any unintended effects?**

The objective of Part 3 of the Regulations is to ensure that there is an efficient and effective system for the assessment and issuing of project approvals. It is considered that this objective has been achieved, with no unintended negative effects, as supported by the evidence in 4.1 and 4.2 below.

<sup>11</sup> Link to stakeholder consultation:

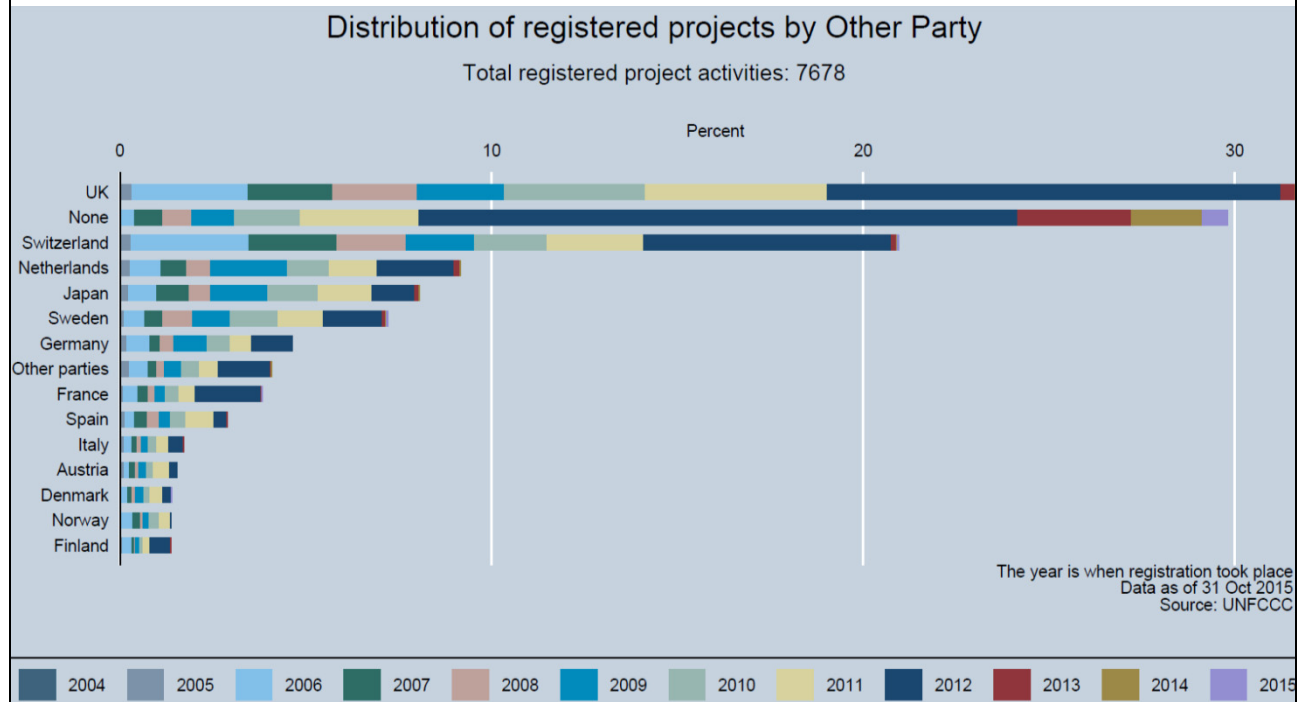
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/330477/amendments\\_uk\\_designated\\_national\\_authority\\_designated\\_focal\\_point\\_regulations.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/330477/amendments_uk_designated_national_authority_designated_focal_point_regulations.pdf).

## 4.1 An efficient system

Since project registrations started in 2006, the UK has processed the most applications of any developed country accepting applications, with more than 30% of the total. Of other countries processing claims, only Switzerland comes close to this, with 21% (Figure 1). Since project registrations started in 2006, the UK has consistently received the most applications compared to other DNAs/DFPs, both in the EU and globally. As applicants can choose freely in which participating developed country they apply for approval, this is considered testament to UK taking an efficient approach<sup>12</sup>.

**Figure**

**1**



Note: A project can have more than one Other Party involved. None means no Other Party is listed at present.

Figure 1: Distribution of registered projects by Other Party: this graph shows which developed countries have issued most Letters Of Approval for projects registered under CDM or JI. 'Other Party' refers to the issuing country. 'None' refers to registered projects where no developed country is listed as having given approval. Such projects cannot issue credits under CDM/JI, but they could be sold in the voluntary credit market (i.e. without full accreditation by the United Nations Framework Convention for Climate Change).

Source : United Nations Framework Convention for Climate Change (UNFCCC)

([https://cdm.unfccc.int/Statistics/Public/files/201510/proj\\_reg\\_byOther.pdf](https://cdm.unfccc.int/Statistics/Public/files/201510/proj_reg_byOther.pdf)) in CDM insights- Project Activities (<https://cdm.unfccc.int/Statistics/Public/CDMinsights/index.html>)

In 2011, after the approvals process had been running for several years and when we expected application numbers to rise, we transferred the function of determining applications from the Secretary of State to the EA. This was because the relevant functions primarily concerned delivery rather than policy-making functions, and we considered it more appropriate and efficient for the EA rather than DECC to perform these functions<sup>13</sup>. As the approval and assessment of applications are, to a large extent, administrative/technical decisions, a delivery agency with more specialised, technical skills was considered to be better suited to administering these functions.

We believe an efficient system for the assessment of applications has been achieved based on the following evidence:

<sup>12</sup> While the UK has processed more applications than other countries, by introducing fees early in 2011, we aimed to recover any costs incurred, i.e. avoiding subsidy from UK taxpayers.

<sup>13</sup> See also Explanatory Memorandum to *The Greenhouse Gas Emissions Trading Scheme (Amendment) (Fees) and national emissions inventory regulations 2011*, link: [http://www.legislation.gov.uk/uksi/2011/727/pdfs/ukxiem\\_20110727\\_en.pdf](http://www.legislation.gov.uk/uksi/2011/727/pdfs/ukxiem_20110727_en.pdf).



- i) *Time taken to process applications:* When the Secretary of State was responsible for assessing and processing applications, from October 2009 to August 2010, initially only 17% of applications were processed in less than two months, while 67% were processed in 3-4 months. By August 2010 70% of applications were processed in less than two months, with only 30% taking longer. There is no data available on the length of processing for the two first months of the review period, when the Secretary of State was still exercising this function. From 1 June 2011, when the Environment Agency took on this role, the first monthly reports and the six-monthly report show over 90% of applications processed within 2 months in all years, except 2012<sup>14</sup> (Table 2).
- ii) *Comparison of the UK approach with other member states of the European Union and European countries:* We compared the UK approach with the other five leading European processors of registered applications. In order of most to least applications these are: United Kingdom, Switzerland, Netherlands, Sweden, Germany, and France. For details, see Annex 1. The UK has taken a similar approach to the other high-performing nations in delivery of applications.
- Institutional arrangements: all of the six countries put specific bodies in charge of processing applications, and all except France put a delivery body (not a Ministry) in charge.
  - Fee structure: half of these countries charge a fee for processing applications – the UK, the Netherlands and Germany. Dutch and UK fees are roughly equivalent, while German fees depend on a complex structure and can be up to nearly three times the amount of UK fees. Three countries charge no fee for processing applications (Switzerland, Sweden, France). However, Sweden and France accept no English language applications, which may limit the pool of interested applicants. The UK is the overall leader in registered applications – this did not change when we introduced fees or when the function of determining applications was transferred to the EA, which provides evidence that applicants are not put off by the fact that the UK charges for applications.
  - Processing time: of the six countries examined, processing lengths vary as shown in Table 2 below.

**Table 2 – All data from websites, as named in Annex 1**

Two weeks	One month	Two months	Three months
<b>Netherlands, but website states that they will take longer in the months of July and August</b>	Switzerland, Sweden (but the Swedish website was last updated in 2012 to say they were taking longer than one month)	UK, Germany	France

**Actual processing length (UK data only)**

**When the EA takes longer than two months to process complete applications, they issue an extension letter to applicants.**

**Since June 2011, the Environment Agency has issued 81 extension letters versus 1,481 applications processed, i.e. for 5% of all applications received. More than 70% of these extension letters were issued in 2012, due to an exceptional amount of large hydroelectric project applications. Assessing large hydroelectric projects takes longer than assessing standard projects, as additional checks need to be carried out<sup>15</sup>. Whereas expectations**

<sup>14</sup> In 2012, as mentioned in Table 3 above, there was an exceptional number of applications, in particular, applications for large hydro-electric projects, which required additional checks, and increased the time needed to process applications.

<sup>15</sup> For example those listed in the World Commission for Dams Report, available here: [http://www.unep.org/dams/WCD/report/WCD\\_DAMS%20report.pdf](http://www.unep.org/dams/WCD/report/WCD_DAMS%20report.pdf).

were to receive one large hydro application per month, the EA received on average more than six large hydro applications per month in the period from June 2011 to December 2012 (122 large hydro applications in total throughout that period). The effect of the high volume of applications (a slower service) appeared in 2012, because this is a cumulative, not an immediate effect: the EA has two months to process applications. For, example if it received a large hydro application in October 2011, it may have sent the extension letter only in January 2012.

The remaining extension letters were spread over 2013-2015, and were due largely to the Environment Agency awaiting additional information from a third party (for example, in projects where the EA was required to consult the Secretary of State for Energy and Climate Change and guidance from the Secretary of State was awaited).

When the EA asks the applicant for additional information, they do not issue an extension letter and the time spent waiting for additional information is not counted within the Environment Agency's two month timeline.

**Table 3 – all data from Environment Agency**

**Processing length: Percent of complete applications processed within two months**

2011	2012	2013	2014	2015
100%	77%	91%	94%	94%

- d. All DNA/DFPs of member states of the European Union include in their checks:
  - That all projects participants have headquarters either in a country that has signed up to the CDM or JI, or in a Least Developed Country;
  - That relevant international criteria and guidelines, including those contained in the World Commission on Dams November 2000 Report 'Dams and Development — A New Framework for Decision-Making', will be respected, according to an agreed template<sup>16</sup>
  - A declaration that they will not claim Certified Emissions Reductions which result from successful applications and remain responsible for the fulfilment of their Kyoto Protocol emission reduction commitments.
- e. Appeals process: Only the UK and Germany specifically state that there is an appeals process available to applicants. Whereas the UK appeals process is set out clearly and no fees apply, the German appeals process makes reference to a range of different fees that applicants may have to pay.

iii) Feedback to the Environment Agency has been generally very good. Customer emails show that they are pleased by the quick and accurate helpdesk responses and turnaround times for the issuance of LOAs. In addition they appreciate that the Environment Agency offers both an email and phone service and multiple ways of making payment. Where feedback has been negative, this is usually because of a perceived or actual delay in receiving LOAs, either through too high an expectation relative to stated service levels or because of delays that are beyond the control of the Environment Agency. More robust checks have also been introduced over time, which can sometimes surprise applicants. They include "Know your customer" checks<sup>9</sup> carried out at the initiative of the EA. They are light-touch checks in line with best practice to avoid money laundering. The EA carries out similar checks for the Emissions Trading System and the Carbon Reduction Commitment, two other schemes it administers for DECC.

<sup>16</sup> Available online at several DNA/DFPs, for example on the webpage of the German DNA/DFP: [http://www.dehst.de/EN/Climate-Projects/Project-Mechanism/CDM/Hydropower-Projects/Hydropower-Projects\\_node.html](http://www.dehst.de/EN/Climate-Projects/Project-Mechanism/CDM/Hydropower-Projects/Hydropower-Projects_node.html).

- iv) Since June 2011, the EA has standardised LOA processing making it more efficient while maintaining a high quality of service. For example, it introduced a step-by-step, standardised checklist when processing and issuing approvals and a system to log and track email contact with applicants which has contributed to a more efficient assessment of applications. However, overall processing time has not changed. This is because the Environment Agency now checks more than previously, including a full applicant check<sup>17</sup>. The share of 'contentious' large hydro applications also rose in 2014/15, which required more time to process.

#### 4.2 An effective system

We consider the legislation has been implemented effectively, both in terms of cost effectiveness, but also in terms of making assessments through an effective process. The following measures have been taken to increase effectiveness:

- i) The amendments made to Part 3 in 2011 which introduced a fee for applications aimed at ensuring cost-recovery of the application process. From 6 April 2011 the Government started charging applicants fees (except for applications relating to projects in Least Developed Countries), aiming to recover our administration costs, i.e. one full-time equivalent staff member – £ 70,000 per annum. For further details on the cost assumptions used, please see the cost benefit analysis section below.
- ii) From April 2012, the EA was given the power to set and charge fees, which was shortly after they started determining applications. This meant that the same body that was processing the majority of applications would be able to recover fees directly<sup>18</sup>. The EA reviews charging levels annually and consults on any changes.
- iii) Part 3 clearly sets out the project approval process, including the option for the EA to request more information. Without this option it would in many cases have been impossible to process projects, because applicants had not provided sufficient or sufficiently clear information.

The following evidence indicates that the implementation of Part 3 has been effective:

- iv) Cost reductions to the tax payer have been achieved by introducing and collecting fees for processing applications and issuing approvals. For the period from the date when fees were introduced (6<sup>th</sup> April 2011) to the date when the function of determining applications under Part 3 of the Regulations was transferred to the EA (1<sup>st</sup> June 2011), DECC collected fees in respect of the applications that it was determining. Since 1 June 2011 the EA has continued collecting these fees, which amount to nearly £440,000 in total (up to November 2015), which has directly benefited the UK tax payer – as fees are now paid by the beneficiary of the service rather than the general public. This is important also because the service is available not only to UK companies, but to companies worldwide.<sup>19</sup>
- v) Introducing charges for this service has also meant overall administrative reductions to government. Since 1 June 2011 the EA has been responsible for determining applications as well as responding to day to day administrative queries relating to the

<sup>17</sup> "Know your customer" checks carried out by the Environment Agency include for example: checking the Certificate of Incorporation to enable the verification of the legal entity; validating the Company Name, Registration Number, Registered Address, against the Companies Registration Offices for England and Wales, Jersey and Ireland.

<sup>18</sup> This was introduced by way of an amendment to the EA's charging powers in the Environment Act 1995, which is subject to review on a different timescale. Consequently, Part 3 of the Regulations no longer contains provisions relating to fees for applications for LOAs.

<sup>19</sup> Arguably, as the UK system is relatively efficient and charges only cover costs, there is a genuine global benefit from lower CDM/JI administration costs generally, and thus a better functioning CDM/JI system.

operation of Part 3. DECC's involvement has been limited to policy-related questions, clarifications or decisions, relating in particular to the duty on the EA to consult the Secretary of State on any novel, contentious, controversial or large hydro project application, and any appeals<sup>20</sup>. These administrative reductions have allowed DECC to reduce resource from one full-time equivalent to below 20% of one full-time equivalent member of staff.

**5a. Please provide a brief recap of the original assumptions about the costs and benefits of the regulation and its effects on business (e.g., as set out in the IA).**

There is no impact assessment that relates to Part 3 as it stands today: when the Regulations were introduced in 2005, an impact assessment was carried out. However, it did not cover Part 3. The only available impact assessment that applies to Part 3 relates to the introduction of fees for processing approvals<sup>21</sup> – which now lies outside Part 3 of the Regulations, with those provisions being subject to a separate review clause and PIR.

**5b. What have been the actual costs and benefits of the regulation and its effects on business?**

i) Benefits

The main benefit of Part 3 is that the UK has significantly contributed to business' successful use of the Kyoto Protocol project mechanisms, while paying for their administrative costs. As Figure 1 above shows, overall the UK has issued over 30% of all approvals globally, more than half of those after introduction of a processing fee. Based on figures from the United Nations Framework Convention on Climate Change, this means 12,000 million tonnes of expected emissions reductions as a result of UK approvals, or about 480 million tonnes of emissions reductions achieved by end 2015.<sup>22</sup>

The UK's position as the most used DNA has helped establish London as a global centre for carbon finance – projects commonly make use of London-based consultancy expertise for the approvals process.

Finally, the EA has had positive feedback from customers because the UK accepts applications from anywhere in the world. Customers have told the EA that they apply in the UK either because of quick turnaround or because they have no choice but to come to the UK because of restrictions elsewhere (for example, some European countries do not accept English language applications, which is a barrier for some applicants, in Annex 1).

ii) Costs

In 2011, before introducing application fees, the Department of Energy and Climate Change estimated processing costs to total around £70,000 per year, i.e. the equivalent of one full-time member of staff. We calculated fee levels to recover these costs, and transferred the power to set

<sup>20</sup> To date, the UK has received only two appeals. In both cases the original decision was upheld.

<sup>21</sup> Link to Impact Assessment: [http://www.legislation.gov.uk/ukia/2011/652/pdfs/ukia\\_20110652\\_en.pdf](http://www.legislation.gov.uk/ukia/2011/652/pdfs/ukia_20110652_en.pdf).

<sup>22</sup> Based on UNFCCC data, CDM projects had issued 1.6 billion credits by the end of 2015 and will have issued around 2.5 billion by 2020. The UK has processed 30% of approvals up to 2015, which translates into 480 million tonnes of the expected emissions reductions.

UNFCCC data source available here: [https://cdm.unfccc.int/Statistics/Public/files/201512/CER\\_potential.pdf](https://cdm.unfccc.int/Statistics/Public/files/201512/CER_potential.pdf).

these fees to the Environment Agency from 2012, see Annex 4 for costs recovered by the EA. Recovering costs through a fee per application also means costs are in general proportionate to the number of applications. This trend is not entirely accurate for 2015, as EA staff costs have been revised upwards in 2015<sup>23</sup>.

iii) Effects on business

We are not aware of any negative effects on business activity, reflecting the small size of the fees. In addition, as mentioned above, trade associations stated that the well-functioning and transparent process for handling applications has contributed to the City of London becoming the 'carbon finance' of the world.

## 6. Assessment of risks or uncertainties in evidence base / Other issues to note

i) Risks/uncertainties in the evidence base

There could be mistakes in the number of project applications, although there is no evidence indicating this is the case.

ii) Demand collapse in 2012

The number of applications has fallen significantly since 2012. This is due to the collapse in demand primarily due to greater restrictions being placed on the use of Kyoto units in the EU ETS which led to a global fall in prices from £17 per unit in 2008 to £0.3 in 2013. This market development led to a decline in the number of applications overall, including in the UK (see Table 4 and Annex 2). However, the UK has retained its overall lead in the share of applications processed. As applicants can choose freely whether to use the service in the UK or elsewhere, this suggests that the UK service compares favourably against others. It is also important there is a charge for this service to avoid subsidy from the UK tax payer.

iii) Introduction of fees

At the time that fees were introduced, the relevant IA raised the issue that applications for projects in Least Developed Countries (LDCs) would increase and that costs are not recovered, because they can apply for free. This risk has not materialised. Applications from LDCs have fluctuated between 0 and 12 per year, but since 2012, the UK has only received a total of 10 applications. We have reasons to assume that this will not change: the Kyoto Protocol commitment period ends in 2020, and the continuation of CDM and JI is unclear after that. As 2020 nears, it is becoming less and less attractive to apply under the Kyoto project mechanisms, as projects would generate emissions reductions beyond 2020 but without certainty of receiving accredited units in return.

<sup>23</sup> For details of application numbers and fees collected please see Annex 4. After updating its staff costs in 2015, the EA concluded that for full cost recovery, charges for normal CDM applications would need to be increased by £ 28.36, and for large hydro applications would need to be increased by £ 599. For 2015, this means an under-recovery of £ 5,753. The EA will consider if and how to adapt charges in the future.



**Table 4 – global total**

**Numbers of projects registered, projects issued with certified emission reductions and certified emission reductions issued (includes programmes of activities)**

<i>Reporting period</i>	<i>Projects registered<sup>a</sup></i>	<i>Projects issued with CERs<sup>b</sup></i>	<i>CERs issued</i>
1 October 2010 to 30 September 2011	1 285	921	305 376 075
1 October 2011 to 30 September 2012	1 747	1 256	264 495 437
1 October 2012 to 30 September 2013	2 183	1 779	379 458 772
1 October 2013 to 30 September 2014	181	574	104 113 269
1 October 2014 to 30 September 2015	105	463	126 932 276

*Abbreviation:* CERs = certified emission reductions.

<sup>a</sup> The number of projects registered is calculated on the basis of the effective date of registration.

<sup>b</sup> “Projects issued with CERs” refers to those projects that received CERs during the reporting period.

Source: 2015 Annual Report of the Executive Board of the clean development mechanism to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, 12 November 2015, [https://cdm.unfccc.int/Reference/EB\\_CMP\\_rep/index.html](https://cdm.unfccc.int/Reference/EB_CMP_rep/index.html) .

## **7. Lessons for future Impact Assessments**

Part 3 has a very narrow focus, and as part of this light-touch review, we have not found any lessons for future Impact Assessments.

## **8. What next steps are proposed for the regulation (e.g. remain/renewal, amendment, removal or replacement)?**

We propose for Part 3 of the Regulations to remain unchanged until the next review cycle, or until updated international requirements (which necessitate changes to Part 3) come into force, whichever is sooner.

For future Post Implementation Reviews, regulation 1A of the Regulations contains a review provision relating to the entire 2005 Regulations, with a first review period from January 2014 to January 2019. We recommend, if a suitable opportunity arises, to consolidate/streamline the various review provisions that exist in respect of this policy area to avoid duplication of work.

**Sign-off** For Post Implementation Review:

***I have read the PIR and I am satisfied that it represents a fair and proportionate assessment of the impact of the policy.***

Signed:

Date:

## Annex 1

Table 6: Top 6 European countries processing LOAs – as of January 2016

	Arrangements	Duration	Charge	Appeals process
<b>UK</b>	Environment Agency processes applications since 2011, with Secretary of State residual right to call in applications, in particular if they are novel, contentious, controversial or large hydroelectric projects.	Within two months if a complete application is submitted	£ 250 £ 700 (JI, large hydro)	Applicants may appeal to the First-tier Tribunal.
<b>Switzerland</b>	The Swiss Federal Office for the Environment created SwissFlex, a national Secretariat, within the Federal Office, which fulfils DNA and DFP duties. Application in English possible	Within a month, if a complete application is submitted by the 10 <sup>th</sup> of a month	Free	No specific appeals processes outlined.
<b>Netherlands</b>	Charges for applications since 2006 Since January 2013 the Dutch Emissions Authority (NEa) is responsible for assessing applications Application in English possible	Historic documents state that they will attempt to deal with complete applications within two weeks of receipt, except in July and August	EUR 400 EUR 800 (large hydro)	No specific appeals processes outlined
<b>Sweden</b>	The Swedish Energy Agency assesses applications	Around one month, but currently longer (updated in Sept 2012); large hydro often takes long to process. Application form in Swedish only	Free	No specific appeals processes outlined
<b>Germany</b>	Charges for applications since 2005; German Emissions Trading Authority (DEHSt) assesses applications; Application in English possible	DEHSt shall make a decision within two months of receiving complete application materials	Complex fee structure between EUR 100-2,100	Appeal process available, possible fee associated
<b>France</b>	Interministerial Mission for Greenhouse Gases (Mission Interministérielle de l'Effet de Serre) processes applications, sat within the Ministry for Ecology, Sustainable Development and Energy Application forms in French only	Three months	Free	No specific appeals processes outlined

Links to websites with details – table compiled based on this information:

UK: <https://www.gov.uk/guidance/clean-development-mechanism-cdm-and-joint-implementation-ji-projects-how-to-apply>  
Switzerland: <http://www.bafu.admin.ch/Klima/13877/14510/14744/14745/index.html?lang=en>  
Netherlands: <http://www.emissionsauthority.nl/topics/consent-for-cdm-and-ji-projects>  
Sweden: <http://www.energimyndigheten.se/en/cooperation/international-climate-cooperation/flexible-mechanisms---cdm-ji--et/dna-and-dfp-in-sweden/letter-of-approval-cdm/>  
Germany: duration of assessment - [http://www.dehst.de/SharedDocs/Downloads/DE/JI-CDM/JI-CDM\\_CDM\\_Handbuch.pdf?\\_\\_blob=publicationFile](http://www.dehst.de/SharedDocs/Downloads/DE/JI-CDM/JI-CDM_CDM_Handbuch.pdf?__blob=publicationFile); level of fees - [http://www.dehst.de/DE/Emissionshandel/Gesetze-Verordnungen/Recht\\_Projekt-Mechanismen-Gebuehrenverordnung.html](http://www.dehst.de/DE/Emissionshandel/Gesetze-Verordnungen/Recht_Projekt-Mechanismen-Gebuehrenverordnung.html)  
France: <http://www.developpement-durable.gouv.fr/Procedure-d-agreement-des-projets.html>



## Annex 2

Evidence on decline of application numbers overall

Based on the *State and Trends of Carbon Pricing*, World Bank Group and Ecofys, 2015, available here: <http://www.worldbank.org/content/dam/Worldbank/document/Climate/State-and-Trend-Report-2015.pdf>

### CDM

— The number of projects and PoAs registered in 2014 was 160, 53% lower than in 2013.

— The number of CERs issued in 2014 was 104 MtCO<sub>2</sub>e, 61% lower than in 2013. This continues the declining trend of the CDM market, as shown in Figure 2.

— In the primary CER market, a total of 60 million CERs were traded, a 70% drop with respect to 2013. Over half of these transactions were made by the governments of Norway and Sweden through their CER purchase programs<sup>24</sup>.

— 25 million primary CERs are expected to be traded in 2015.<sup>25</sup>

— The average CER price on the secondary market was €0.17/tCO<sub>2</sub>e (US\$0.19) in 2014, more than 50% lower than in 2013.<sup>26</sup>

### Joint Implementation

— No project was registered in 2014.<sup>27</sup>

— The number of ERUs issued in 2014 was 31 MtCO<sub>2</sub>e, 83% less than in 2013. This continues the declining trend of the JI market, as shown in Figure 2.

— In 2014, no primary ERU contracts were closed and only 17.8 MtCO<sub>2</sub>e of trading took place on the secondary market.<sup>28</sup>

— The ERU price fell to €0.03 (US\$0.03) in December 2014.<sup>29</sup>

<sup>24</sup> Source: Thomson Reuters, 2014 Year in Review and Outlook: Asia on the Rise, Carbon Market Analyst, January 2015.

<sup>25</sup> Ibid.

<sup>26</sup> Intercontinental Exchange ICE, Daily Futures CERs.

<sup>27</sup> UNEP DTU Centre on Energy, Climate and Sustainable Development, UNEP DTU CDM/JI Pipeline Analysis and Database, August 1, 2015, <http://www.cdmpipeline.org/>; UNEP DTU Centre on Energy, Climate and Sustainable Development, JI Pipeline, August 1, 2015, <http://www.cdmpipeline.org/publications/JiPipeline.xlsx>.

<sup>28</sup> Thomson Reuters, 2014 Year in Review and Outlook: Asia on the Rise.

<sup>29</sup> Ibid.

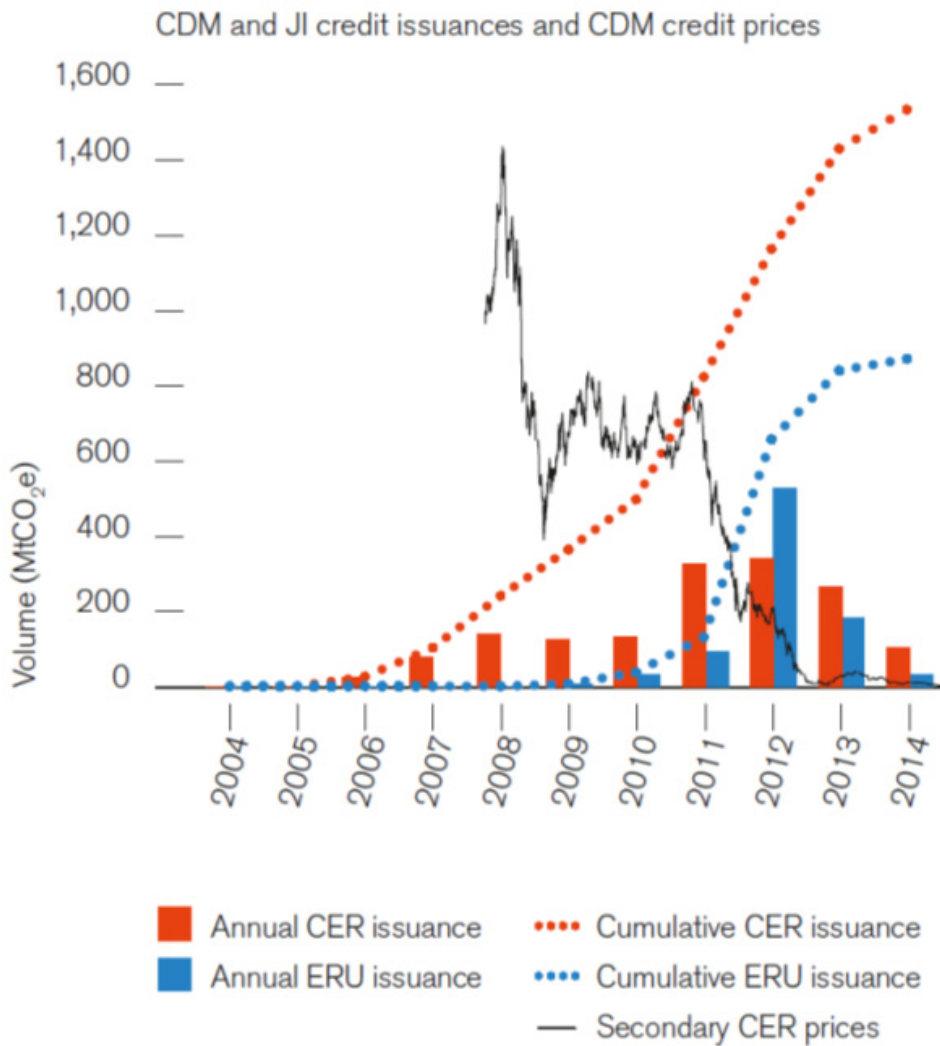


Figure 2

CER – stands for Certified Emission Reduction – and is a unit of GHG emission reductions issued pursuant to the Clean Development Mechanism of the Kyoto Protocol and measured in metric tons of carbon dioxide equivalent. One CER represents a reduction in GHG emissions of one metric ton of carbon dioxide equivalent.

ERU – stands for Emissions Reduction Unit – A unit of emission reductions issued pursuant to Joint Implementation. One ERU represents the right to emit one metric ton of carbon dioxide equivalent. Source: Based on UNFCCC for CDM and JI data on issuances, Intercontinental Exchange ICE for CDM data on prices, *State and Trends of Carbon Pricing*, World Bank Group and Ecofys, 2015, available here: <http://www.worldbank.org/content/dam/Worldbank/document/Climate/State-and-Trend-Report-2015.pdf>

### Annex 3

Please see questions from the informal survey sent to all CDM/JI applicants below, compiled through “surveymonkey.com”. Participants were given one week to respond.

[starts]

- 1) If you have applied for project approval before and after April 2011, have you noticed any change/improvement in the service?

Yes – No

If yes: please provide detail, for example, ‘my application(s) have been processed faster/slower’, ‘the service is more/less professional now’,

- 2) The process of applying for project approval, as set out on the Environment Agency’s website ([link](#)), is clear to me.

Strongly agree – agree – disagree – strongly disagree

Comments:

- 3) Why have you applied for project approval in the United Kingdom rather than elsewhere?

Select all that apply: a) Simple, clear process; b) professional service; c) certainty about processing timelines; d) level of processing fees;

- 4) The service the Environment Agency provides when processing applications is usually professional.

Strongly agree – agree – neutral – disagree – strongly disagree

Comments:

Additional comments, for example relating to opportunities for improvement:

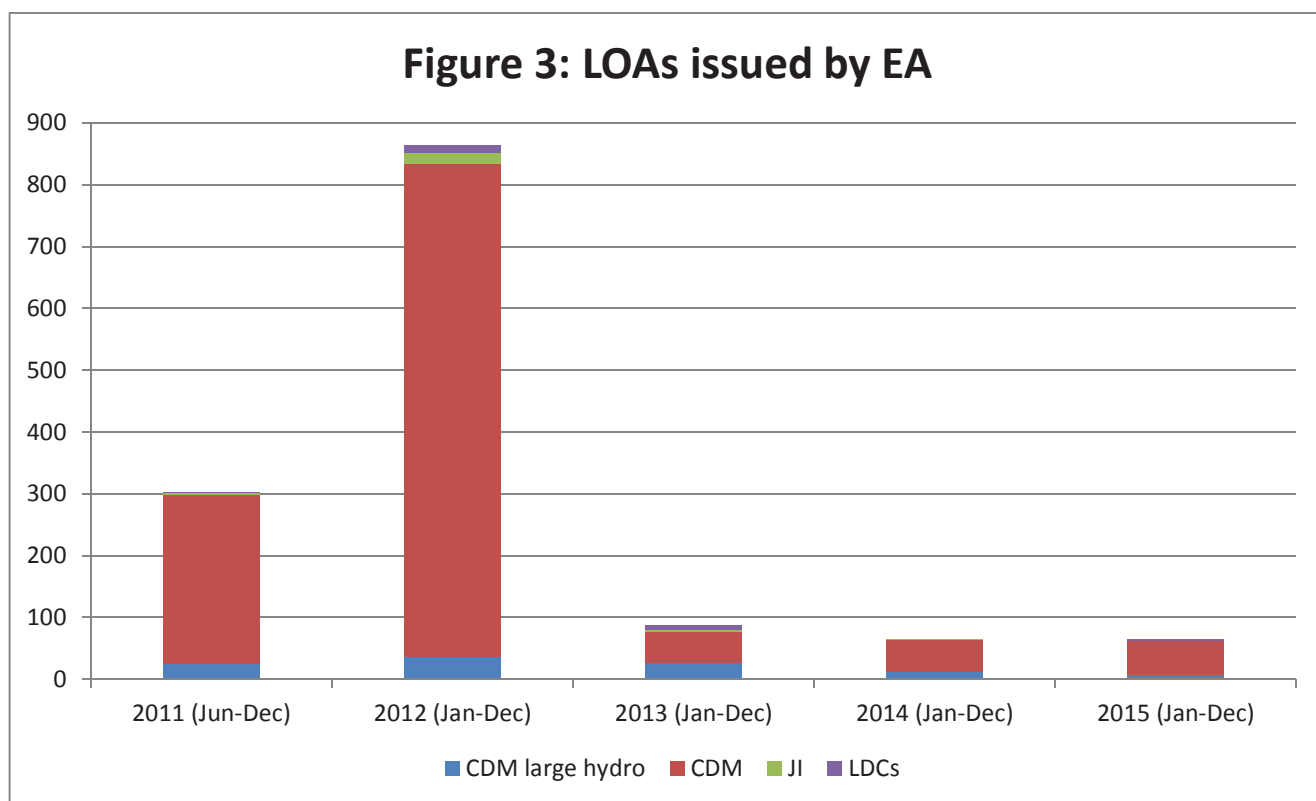
[ends]

## Annex 4

LOA processing fees, based on data from the Environment Agency

LOA processing numbers are outlined in Table 7 and illustrated in Figure 3. Fees collected are outlined in Table 8.

LOAs processed by the EA	CDM large hydro	CDM other	JI	LDCs
2011 (Jun-Dec)	26	272	3	1
2012 (Jan-Dec)	36	797	19	12
2013 (Jan-Dec)	27	50	2	8
2014 (Jan-Dec)	12	52	1	0
2015 (Jan-Dec)	7	55	0	2



<b>Table 8</b> <b>UK application</b> <b>fees collected</b>	<b>CDM large</b> <b>hydro</b> <b>(£700 per</b> <b>application)</b>	<b>CDM other</b> <b>(£250 per</b> <b>application)</b>	<b>JI</b> <b>(£700 per</b> <b>application)</b>	<b>LDCs</b>
<b>2011 (Jun-Dec)</b>	18,200	68,000	2,100	
<b>2012 (Jan-Dec)</b>	67,200	199,250	13,300	No
<b>2013 (Jan-Dec)</b>	18,900	12,500	1400	application
<b>2014 (Jan-Dec)</b>	8,400	13,000	700	fees
<b>2015 (Jan-Dec)</b>	4,900	13,750	0	collected
<b>Total fees</b> <b>collected</b>	<i>117,600</i>	<i>306,500</i>	<i>17,500</i>	for LDCs

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