Input to the high-level panel for the CDM Policy Dialogue

Background paper by the secretariat

22 December 2011

I. Introduction

1. The Clean Development Mechanism ("CDM"), established under the Kyoto Protocol in 1997 and operational since 2001, has exceeded all expectations regarding its potential. From an uncertain beginning it has emerged as the world's largest provider of emission offset credits and, in the field of climate change mitigation, the primary vehicle for leveraging and channelling flows of finance and clean technology, particularly from the private sector, to developing countries. To date, over 3,600 projects responsible for over 800 million tonnes of emission reductions have been recognized under the CDM, with thousands of additional projects – and at least a billion tonnes of additional emission reductions – expected over the next decade. Furthermore, the emission offset credits that have been issued on the basis of these reductions are generally regarded as being of high quality and are accepted for use in a number of domestic emissions trading systems around the world.

2. The CDM, however, now stands at a crossroads. While a creature of the Kyoto Protocol, the focus of the global climate change system is shifting to the negotiation of a new instrument in which the role of the CDM is uncertain. Criticisms of the CDM are prevalent, including allegations that some projects lack environmental integrity or, in extreme cases, have been the scene of environmental and human rights abuses. Tighter restrictions are being placed on the use of its offset credits in domestic emissions trading systems and, perhaps unsurprisingly, other mechanisms are emerging to challenge the CDM's dominance, including new mechanisms run by national governments outside the United Nations system and privately run mechanisms that claim to uphold higher standards than the CDM. In addition, a new mechanism under the United Nations has been recently defined, which, while not envisioned as a direct competitor to the CDM, seeks to operate on a significantly broader level than the CDM.

3. To ensure that the CDM responds effectively in this changing landscape, the governing body of the CDM, the Executive Board, launched a policy dialogue in late 2011. Led by an independent, external, and high-level panel (the "Panel"), the policy dialogue shall engage stakeholders (including civil society, policymakers, market participants, and other members of the public), critically analyze the effectiveness of the CDM, and ultimately generate specific recommendations on how best to position the CDM in order to ensure its effectiveness in contributing to future global climate action. The expected outcome of the policy dialogue is the publication of a comprehensive report in September 2012, to be released publicly, in full, and without interference.

4. This paper has been drafted by officials of the United Nations Climate Change Secretariat (the 'secretariat') for the purpose of helping to orient Panel members to commonly discussed issues relating to the CDM. While not an official document, it is also to be shared more broadly for the purposes of enhancing transparency in the process and assisting stakeholders wishing to engage with the policy dialogue. It is structured as follows:

a. Section II contains a description of the CDM, including its operations and governance arrangements;

b. Section III sets out the context in which the CDM operates, including its origins under international climate change agreements, its role under these agreements, its role in relation to national and regional approaches, and possible changes to its role in light of the recent agreements reached in Durban;

c. Section IV sets out key achievements and criticisms of the CDM;

d. Section V describes the CDM policy dialogue, referring both to its terms of reference and also to additional information that may be relevant;

e. Section VI identifies possible areas of focus for Panel members and stakeholders to consider as they participate in this process.

II. Description of the CDM

A. Operations

5. Under the CDM, a project to reduce emissions may be implemented in a developing country. To the extent that this project reduces emissions below the level that they would have been at in the absence of the project, also known as the "baseline" level of emissions, a quantity of emission offset credits ("certified emission reductions" or "CERs") may be issued equivalent to the number of tonnes of carbon dioxide (or equivalent in other greenhouse gases) that are reduced. These CERs may then be transferred to other entities, most commonly so that they may be used to counterbalance, or offset, their emissions.

6. Broadly, the functioning of the CDM comprises two stages:

a. **Registration:** This stage refers to the formal recognition of a project as an activity that reduces, or may be capable of reducing, emissions below the baseline level of emissions. Registration follows the preparation of a project proposal and all necessary supplementary documentation, including a letter from the government of the country where the project is located confirming that the project will assist it to achieve sustainable development;

b. **Issuance:** This stage refers to the creation of CERs in a quantity equal to the emissions that are reduced by a registered project. Issuance follows the monitoring of emissions at the project and the verification of the results of this process.

7. Responsibility for the implementation of the project lies with one or more public or – more commonly – private entities, known as "project participants". The rules of the CDM require project participants to receive authorization from their respective national governments to implement a project under the rules of the CDM. Following registration, project participants are responsible for operating the project and monitoring emissions. In many cases, project participants contract external specialists, among them project developers, consultants, or other experts, to assist them in implementing the project and navigating the CDM process.

8. To ensure the quality of requests for registration and issuance, project participants are required to contract a third-party auditor that is responsible for ensuring that the project meets the rules of the CDM and for submitting requests for the registration of the project

and subsequent issuances of CERs. These auditors, known as designated operational entities ("DOEs"), must be accredited under the rules of the CDM.

9. With limited exceptions, a CDM project may encompass any type of activity or technology that reduces emissions. Examples of existing CDM projects include facilities for the capture of methane at landfill sites, the implementation of public transit systems, and the construction of renewable energy generation facilities such as wind farms. More recently, it was agreed that activities that capture carbon dioxide and store it in geological formations, such as coal seams or saline aquifers, are eligible under the CDM. The list of ineligible activities or technologies is relatively limited, and to date includes only:

    a. Nuclear facilities;

    b. Most activities involving land-use, land-use change, and forestry, with the exception of afforestation (e.g. converting land that has not been forested for 50 years or more into a forest) and reforestation (e.g. converting land that was not forested on 31 December 1989 into a forest), both of which are eligible under the CDM.

10. A CDM project need not be limited to a single geographic location. Facilities at multiple locations in a developing country may be considered together for registration and issuance purposes. Examples include the distribution of compact fluorescent light bulbs to households across a region or nation, or the installation of solar water heaters in multiple villages. The term "programmatic CDM" (also known as "programmes of activities" or "PoAs") is frequently used to describe activities that are geographically diffuse and, while individually small in terms of the emissions that they reduce, potentially significant when measured collectively.

11. A CDM project may generate CERs for a limited period of time, known as a "crediting period", which may be a seven-year period renewable twice (for a total of 21 years) or a non-renewable 10-year period. The determination of which crediting period to apply is made by project participants, who in making their choice frequently balance their preference for a longer overall crediting period (and, by extension, more CERs) against the consideration that renewals of crediting periods are subject to review under the rules of the CDM and may result in a reduction in the number of CERs that may be issued or, in some cases, a rejection of a request for renewal.

B. Governance

12. The CDM, as a mechanism established under the Kyoto Protocol, is ultimately subject to the authority and guidance of the countries that have ratified the Kyoto Protocol, which provide guidance in the form of one or more decisions promulgated at their annual meeting. This guidance is typically heavily negotiated and reflects the work of delegates drawn from a wide range of these countries.

13. The operations of the CDM are supervised by an Executive Board (the "Board"), which is composed of ten members who are nominated and elected by national governments, taking fully into account the consideration of regional balance.[1] The nomination of each

[1] The Board is composed of one member from each of the five United Nations regional groups (i.e. the African Group, the Asia-Pacific Group, the Eastern European Group, the Latin American and Caribbean Group, and the Western European and Others Group), two additional members from developed countries, two additional members from developing countries, and one additional member from a small island developing country (decision 3/CMP.1, annex, paragraph 7).

member is accompanied by the nomination of an alternate from the same constituency, who may stand in for the member as appropriate. Each member and alternate is required to serve in her/his personal capacity.

14. Under the Board's rules of procedure, decisions are intended to be taken by consensus. Where consensus cannot be achieved, decisions may be taken by voting; the threshold for passage is 75 per cent of members present and voting.

15. To help it perform its functions, the Board has established five support bodies composed of Board members and outside experts as appropriate. Each of these bodies is tasked with advising the Board on specific aspects under its responsibility, and include:

    a. The Accreditation Panel, which advises on standards for accrediting DOEs and on the compliance of DOEs with these standards;

    b. The Afforestation and Reforestation Working Group, which advises on issues concerning afforestation and reforestation;

    c. The Methodologies Panel, which recommends guidelines for methodologies for calculating baseline levels of emissions and monitoring plans and also prepares recommendations on submitted proposals for such methodologies;

    d. Registration and Issuance Teams, which assists in the Board's consideration of requests for the registration of projects and the issuance of CERs;

    e. The Small-Scale Working Group advises on all issues concerning projects below certain thresholds.[2]

16. While the Board (both in its own right and via its support bodies) retain ultimate responsibility for all operational aspects of the CDM, including the registration of CDM projects and the issuance of CERs, much of the preparatory work is performed by two other bodies, namely:

    a. DOEs, which as noted above are responsible for confirming that projects comply with the rules of the CDM and for submitting requests for registration and issuance;

    b. The secretariat, which services the Board and its support bodies and in particular, after performing checks on the completeness and accuracy of the requests for registration and issuance that are received from DOEs, advises the Board on whether such requests should be accepted or rejected.

17. At present, decisions of the Board are final. A proposal is currently being discussed by the countries that have ratified the Kyoto Protocol to implement a procedure for considering appeals of decisions made by the Board in respect of project registrations and CER issuances.

III. Context of the CDM

A. Origins

[2] Such projects include: (a) renewable energy projects with a maximum output capacity of 15 MW (or equivalent); (b) energy efficiency projects with a maximum output of 60 GWh per year (or equivalent); and (c) other projects that reduce emissions by no more than 60,000 tonnes of carbon dioxide (or equivalent in other greenhouse gases) per year (decision 1/CMP.2, paragraph 28).

18. As noted above, the CDM was established under the Kyoto Protocol, which was itself established under the United Nations Framework Convention on Climate Change (the "Convention"), the international community's overarching treaty for addressing climate change. A brief review of the Convention and the Kyoto Protocol may be helpful in understanding the circumstances in which the CDM emerged.

19. The Convention – which was adopted in 1992 and entered into force in 1994 – has as its ultimate objective the stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous human-induced interference with the climate system. To achieve this objective, it declares that all countries shall undertake certain commitments (e.g. the development and publication of national emissions inventories). However, it also declares that developed countries should lead efforts to address climate change and its adverse effects, and accordingly sets out additional commitments for these countries (e.g. the adoption of policies and measures to mitigate emissions, the provision of financial resources and technology to developing countries, and the delivery of assistance to particularly vulnerable developing countries to meet the costs of adapting to climate change).[3]

20. The Convention enjoys near-universal membership, with 195 entities having ratified it (each a "Party" and together the "Parties").[4] The Parties meet annually as the Conference of the Parties ("COP") in order to review the implementation of the Convention.

21. At COP 1 (1995), Parties agreed that the commitments under the Convention were inadequate for addressing climate change, and they launched a process for strengthening them. As part of this process, they further agreed that the focus of these efforts ought to be on developed countries, which would be called upon, first, to accept quantified targets for their emissions, and second, to elaborate policies and measures to meet these targets.

22. The outcome of the above process was the Kyoto Protocol, which was adopted in 1997 and entered into force in 2005. The Kyoto Protocol establishes a legal framework in which developed countries accept emission targets over specific periods of time, known as commitment periods, and sets out emission targets applicable to the first commitment period (1 January 2008 to 31 December 2012). The Kyoto Protocol does not provide for emission targets for developing countries.

23. The Kyoto Protocol has been ratified by 193 of the 195 Parties to the Convention, with one further Party having recently announced its intention to withdraw from it.[5] The Parties to the Kyoto Protocol convene annually as the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol ("CMP"), concurrently with the COP, in order to review the implementation of the Kyoto Protocol.

B. The role of the CDM under the Kyoto Protocol

24. As noted above, the Kyoto Protocol sets out emission targets for developed countries. However, the Kyoto Protocol does not require a developed country to reach its target

[3] Under the Convention, developed countries are defined as the Parties listed in Annex I to the Convention and are referred to as "Annex I Parties", whereas developing countries are defined as all other Parties and are referred to as "non-Annex I Parties".

[4] This list includes 192 of the 193 member States of the United Nations (the exception being South Sudan), two self-governing jurisdictions in free association with New Zealand (Cook Islands, Niue), and the European Union as a regional economic integration organization.

[5] The two Parties that have not ratified the Kyoto Protocol are Afghanistan and the United States of America. Canada announced in December 2011 its intention to withdraw from the Kyoto Protocol.

solely through domestic actions that reduce its own emissions. Instead, it also sets out three flexible mechanisms by which a developed country may cooperate with one or more other countries in order to meet its emission target in a collective manner.

25. The CDM is the largest and best-known of these mechanisms, and CERs may be used by developed countries to meet their emission targets under the Kyoto Protocol. The other two mechanisms available under the Kyoto Protocol are joint implementation (JI) and international emissions trading (IET). In short, JI operates on a similar principle as the CDM but relates instead to projects in other developed countries, whereas IET allows developed countries to reallocate their emission targets amongst each other.

26. It should be noted that the CDM is unique among the three mechanisms in having a second purpose other than simply that of assisting developed countries to meet their emission targets. As set out in the Kyoto Protocol, the CDM is also intended to assist developing countries to achieve sustainable development and to contribute to the ultimate objective of the Convention as identified above.

27. The appropriate balance between domestic actions and international cooperation is inexact. At CMP 1 (2005), it was agreed that the use of the flexible mechanisms shall be "supplemental" to domestic action and that domestic action shall therefore represent a "significant element" of the effort made by each developed country to meet its emission target under the Kyoto Protocol. However, Parties have not yet agreed on any quantitative limits on the use of the flexible mechanisms.

28. Finally, it should be noted that the CDM is the main source of income for the Adaptation Fund, which finances projects and programmes in developing countries that are particularly vulnerable to the adverse effects of climate change, in order to assist them to adapt to these effects. Two per cent of all CERs issued under the CDM, other than those from projects in least developed countries, are diverted to a special account where they are sold and the proceeds remitted to the Adaptation Fund.

C. The role of the CDM in relation to national and regional approaches

29. Although the CDM was established to assist developed countries to meet their emission targets under the Kyoto Protocol, it may also be used – subject to national and/or regional laws – to assist individual emitters, such as power plants and industrial installations, to meet compliance obligations imposed on them under national or regional emissions trading systems. It is generally accepted that the primary driver for the rapid growth of the CDM has been the demand for CERs from emitters that face compliance obligations under such systems, particularly the European Union's Emissions Trading System ("EU ETS"), the world's largest. Other systems that allow the use of CERs by emitters include those in Australia, Japan, and New Zealand.

30. In addition, CERs may be purchased and cancelled on a voluntary basis by entities seeking to offset their emissions. The volume of CERs used for such transactions is, however, currently very small.

D. Possible changes to the role of the CDM

31. The climate change conference in Durban in December 2011 (COP 17/CMP 7) was significant for the role of the CDM in two key respects:

    a. Parties agreed to commence negotiations to develop "a protocol, another legal instrument or an agreed outcome with legal force" that would be "applicable to

all Parties", such negotiations to conclude by 2015 and such protocol, instrument, or outcome to be effective from 2020;

b. The Parties to the Kyoto Protocol agreed to establish a second commitment period under the Kyoto Protocol, starting on 1 January 2013 and ending on 31 December 2017 or 31 December 2020 (to be decided at CMP 8 in 2012).

32. Taken together, the role of the CDM within the global climate change system appears to be preserved in essentially its current form until the end of 2017 or 2020, although its role beyond 2020 would appear to be less certain.

33. A further change to the role of the CDM seems likely to be prompted by restrictions that are being introduced on the use of CERs in the EU ETS. Effective in 2013, the EU ETS intends to ban the use of CERs (as well as emission offset credits issued under JI) that originate from the destruction of certain industrial gases. Equally, the EU ETS intends to ban the use of CERs (as well as emission offset credits issued under JI) from projects that are registered on or after 1 January 2013, with the exception of CERs from projects located in least developed countries. CERs issued from projects registered before this date will, however, continue to be eligible in the EU ETS.

IV. Achievements and criticisms of the CDM

A. Achievements

34. As noted in the first paragraph of this paper, the CDM has grown significantly since it commenced operations in 2001. To date, over 3,600 projects have been registered and over 800 million CERs have been issued. While predictions can be unreliable, it is generally thought that, bearing in mind current trends, the number of issued CERs will surpass one billion in late 2012 and will likely climb by approximately 200 to 300 million per year thereafter for the next decade.

35. Although the generation of CERs does not intrinsically represent a net environmental gain – in that they may be used to increase emissions elsewhere – two factors suggest that the CDM is, in practice, likely to result in a net environmental gain. First, issuances of CERs are generally made on the basis of conservative estimates and assumptions, so it is likely that the quantity of emissions reduced is greater than the number of CERs that are issued. Second, as noted earlier, CDM projects have time-bound crediting periods for generating CERs, whereas the emissions impact of CDM projects can generally be expected to last beyond these crediting periods.

36. In addition, the CDM has also contributed in other areas, including toward meeting its other goal of assisting developing countries to achieve sustainable development. In 2011, the secretariat produced a comprehensive review of the achievements of the CDM in the areas of sustainable development, technology transfer, and financial flows, following an analysis of claims made in respect of the 3,276 projects that were registered on or before 31 July 2011.[6] The following observations are drawn from this review:

a. **Sustainable development:** Most CDM projects claim several sustainable development benefits such as employment creation, the reduction of noise and pollution, and the protection of natural resources. Projects relating to the destruction of industrial gases tend to result in fewer claims of sustainable

[6] For further information, please refer to "Benefits of the Clean Development Mechanism" (2011), published by the United Nations Framework Convention on Climate Change secretariat.

development impacts, while other project types tend to result in more (and varied) claims.

b. **Technology transfer:** Many CDM projects are delivering clean technology to developing countries, although it should be noted that the need for technology transfer tends to fall over time as local sources of knowledge and equipment become more available and expertise on available technologies grows. The prospect of technology transfer under the CDM is generally inversely proportional to the host country's population, level of official development assistance per capita, ranking for the ease of doing business, and democratic index score.

c. **Financial flows:** Annual investment in registered CDM projects rose from USD 40 million in 2004 to USD 47 billion in 2010 and cumulatively totals over USD 140 billion to mid-2011. The average investment per CDM project is approximately USD 45 million.

37. It is also worth noting that the CDM represents a tool for engaging the private sector in the fight against climate change. In light of the current state of global public finances, it is apparent that the private sector will need to provide a significant portion of the financing and technology for global mitigation efforts, and the CDM – and other market-based mechanisms – are the primary vehicle for engaging the private sector, identifying and implementing emission reduction opportunities, and leveraging its considerable resources.

38. A final contribution of the CDM worth mentioning is its leadership in the relatively new field of emission offsetting. As a first mover, the CDM has pioneered a wide range of standards, ranging from the accreditation of DOEs to the design of methodologies for calculating baselines and emission reductions. These have helped to provide a robust foundation of policies and procedures that may be built upon in the future, whether at the international or national/regional levels, and to contribute to ongoing efforts to harmonization, thereby reducing regulatory complexity and transaction costs.

B. Criticisms

39. The CDM has also attracted a considerable amount of criticism since the start of its operation. These are broadly divisible into three categories: (a) criticism of the principles underlying the CDM; (b) criticism of the manner in which the CDM has been implemented; and (c) criticism of the inherent limits of the approach embodied by the CDM. While a comprehensive review of all criticism voiced to date is beyond the scope of this paper, it is hoped that the overview provided in this section may be a helpful introduction to the concerns that have been raised.

40. The first category of criticism is primarily theoretical in nature, in which the principles underlying the CDM are challenged. Criticisms under this category may be divided into two sub-categories:

a. **Concerns regarding offsetting:** The concept of offsetting – whereby emissions may be reduced in one location so that they may be increased elsewhere – is alleged by some critics to be inherently flawed, on the basis that it simply allows developed countries to avoid measures that reduce their own emissions and to outsource responsibility for making such reductions to developing countries. (An oft-repeated analogy in this regard is one of the mediaeval practice of selling indulgences.)

b. **Effectiveness of emissions trading:** The CDM, by virtue of enabling emission reductions in one location to be counted toward the achievement of a target in another location, constitutes a form of emissions trading, whereby the right to emit may be exchanged for money or other goods. It has been alleged that other policy measures, such as taxation or even direct regulation, may be more effective and efficient in meeting emission reduction goals.

41. The second category is more practical in nature, in which the principles underlying the CDM are acknowledged (and perhaps agreed with), but the manner in which the CDM has been implemented is criticized as inadequate. Criticisms under this category may be divided into four sub-categories:

    a. **Sustainable development impact:** While a condition of registering each CDM project is the receipt of a letter from the host country government confirming that the project assists it to achieve sustainable development, there are frequently voiced concerns that this stage in the process is a formality, and that national governments frequently issue such letters without proper investigation and/or appropriate regard to concerns raised by stakeholders. In extreme cases, it has been alleged that CDM projects, despite having been issued with such letters, have been the scene of environmental damages or human rights abuses.

    b. **Environmental integrity:** Given that CERs are issued on the basis of a comparison between actual emissions and a – by definition – hypothetical baseline level of emissions, it has been alleged that some CERs have been issued for emission reductions that would have occurred even in the absence of the CDM project in question. This allegation cites both the registration of certain CDM projects in the first instance, and also CDM projects that – while properly registered – ought not to have had their crediting periods renewed (with the lack of clear guidance on the renewal of crediting periods being cited as a cause for concern). Further, in a number of projects, particularly those involving the destruction of industrial gases, it has been claimed that the CDM has actually incentivized the increased production of such gases solely to enable their destruction and, by extension, the generation and monetization of an increased number of CERs, given that the costs of producing such gases is generally lower than the price that can be received for an equivalent number of CERs.

    c. **Regional distribution:** The geographic imbalance of the CDM is frequently noted as a source of concern. Over two-thirds of all registered projects – and over three-quarters of all issued CERs – originate from only two countries, China and India. Further, only 43 additional developing countries have generated any number of CERs at all.

    d. **Operational:** Several criticisms have been made regarding the timelines for registering projects and issuing CERs, where delays of several months, and at times exceeding a year, have not been uncommon. Other criticisms have related to the complexity and lack of user-friendliness of the mechanism, such as conflicting or incomplete guidance. Still other criticisms relate to a perceived lack of transparency and consistency in the manner in which decisions on the registration of projects and the issuance of CERs are made. While these criticisms remain a source of concern, they are also the subject of intense efforts of improvement by Parties, the Board, and the secretariat, and the vigour of this type of criticism appears to have fallen in the past two years.

42. The third category relates less to concerns with the theory and practice of the CDM, and relates instead to concerns about its ability to deliver the flows of finance and technology

that are required by developing countries in order to assist them to contribute effectively to the global response to the climate change challenge. Criticisms under this category may be divided into two broad categories:

a. **Inadequate use of standardized approaches:** The CDM has typically relied on individualized assessments of projects against a set of standards and guidelines. Although this mode of work has some advantages, including precise estimates of each project's contribution to overall emission reduction efforts and the generation of project-specific data, it has also been found – through years of practical experience – to pose serious limitations. First, it is extremely resource-intensive to assess each request for registration and issuance. Second, this mode of work introduces a greater potential for inconsistency, as individualized assessments increase the challenges of ensuring consistent treatment and reinforce the need to build in structures within assessment processes to take account of earlier decisions, to analyse the large amounts of data being collected, and to feed the results into the further development or revision of procedures and standards. A preferred mode of work may lie instead in the use of standardized approaches, such as emission baselines set on a sectoral or even country-wide level, or less intensive monitoring techniques (e.g. sampling). While efforts to reform the CDM to expand the use of such approaches is ongoing, it remains unclear whether they are likely to result in significant changes to the mechanism.

b. **Level of aggregation:** The CDM currently assesses emission reductions on a project-by-project basis (or, in the case of programmatic CDM, a bundle of similar projects). This approach, it is alleged, may be insufficient to cover a sufficiently broad range of emissions in a developing country: large emitters may choose not to participate in the mechanism, and small emitters may decide that the administrative costs of participation outweigh any financial benefit that they might receive from the issuance and monetization of CERs. Rather, a broader level of aggregation that covers entire industrial sectors, regions, or even entire countries may be needed in order to help developing countries avoid the adoption of high-emission pathways.

V. The Policy Dialogue

A. Terms of reference

43. In November 2011, the Board formally launched the policy dialogue with a view to reviewing experience with the CDM and helping to ensure the readiness and positioning of the CDM to meet future challenges. In doing so, it also provided the terms of reference for the policy dialogue, attached as annex I to this note. These terms of reference provide background information to the policy dialogue, outline the expected process and outcomes, and set out activities to be undertaken and milestones to be reached.

44. A launch event for the policy dialogue was subsequently held at COP 17/CMP 7 in Durban, South Africa, in December 2011.

B. Additional information

45. In addition to the information contained in the terms of reference, the following information may be helpful:

a. **Independence of the Panel:** Although the policy dialogue is an initiative of the Board and is supported at arm's length by the secretariat, the Panel will lead the

policy dialogue and make its independent recommendations. The secretariat is committed to supporting the CDM policy dialogue and, accordingly, is available to service the Panel in whatever way that the Panel deems appropriate.

b. **Independence of the output:** The final output of the policy dialogue will be presented in the form of a public report, expected to be published in September 2012. This report will be published in full without interference from any other bodies, including the Board. This report will also be submitted to the Board to inform its recommendations to the CMP in late 2012.

c. **Scope of the output:** The public report is expected to provide recommendations for the future design and operations of the CDM, as well as to inform the negotiations on issues relating to the CDM, including potential new market-based mechanisms under consideration by the COP and/or the CMP. The Panel will have the liberty to address any aspect of the CDM that it deems fit.

d. **Engagement with stakeholders:** In carrying out the policy dialogue, the Panel will engage with a wide range of stakeholders through meetings, visits, studies and other means as may be required to gain a full and unbiased picture of the operations and impact of the CDM. As a starting point, the Board has opened a call for inputs from stakeholders to suggest issues to be addressed in the policy dialogue. Due by 16 January 2012, these inputs are expected to provide guidance to the Panel about possible issues for it to address in the policy dialogue.

e. **Support to panel members:** Panel members will, in addition to any resources that they may be able to draw on in their own capacities, have access to further support arrangements of their choosing, for tasks such as the conduct of background research and the drafting of working documents. Any persons hired for such purposes will be functionally independent from the secretariat so as to preserve the independence of the work

VI. Possible areas of focus

46. As noted above, the Panel has exclusive competence to determine the scope and conduct of its work, guided by inputs from stakeholders. In this regard, the following areas of focus may be helpful in instigating thinking and in pursuing further work so as to strengthen the role of the CDM in the global climate change system from now until 2020 and to position the CDM to serve this system – in whatever form it will take – beyond 2020:

a. **Integration:** What should be the appropriate response of the CDM to the emergence of new mechanisms – whether operated under the United Nations system, by national and regional governments, or by the private sector? Should the CDM strive to maintain its quasi-monopoly in the generation of emission offset credits, or to position itself primarily as an institution for setting standards and establishing best practices? What timeline is appropriate in this regard?

b. **Scaling up:** If "scaled up" mechanisms are to emerge (i.e. mechanisms targeting sectors, regions or economies, rather than individual projects), would it be better for the CDM to be reformed in order to fulfil this role, or for the CDM to reposition itself strictly as a project-based mechanism and to cede this ground to new mechanisms? What lessons might programmatic CDM have for scaling up?

c. **Governance:** Are the current governance arrangements for the CDM effective and appropriate in light of its scope and objectives? Are institutional reforms

needed to the Board, its support structure, and/or the secretariat? How effective is the current relationship between the Board and DOEs? What role (if any) does an appeals procedure have in this regard, and what is its appropriate scope?

d. **Sustainable development:** Is the current approach of the CDM effective in helping host countries to achieve sustainable development? How can the CDM be improved to ensure that CDM projects provide real sustainable development support?

e. **Environmental integrity:** What measures can be taken for the CDM to further safeguard environmental integrity? Does offsetting pose legitimate concerns, either for the countries that produce credits or for the countries that use them, and to what extent could these concerns be met if the CDM could ensure a net decrease in emissions, rather than the current 1:1 model (i.e. 100 per cent of emission reductions achieved in the project are converted into CERs to be used for offsetting)?

f. **Efficiency:** What measures should be taken to further streamline the functioning of the CDM? Can greater efficiency be achieved without sacrificing environmental integrity (and, if so, how)? Is the project-by-project approach viable?

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