

**CDM Policy Dialogue: summary of stakeholder engagement meeting
in Shenzhen, China**

Date and time:	Tuesday 13 March 2012, from 6.15 p.m. to 7.45 p.m.
Location:	Shenzhen, China (in conjunction with the Partnership for Market Readiness workshop organized by the World Bank)
Panel member(s):	Changhua Wu
Senior expert advisor(s):	Akihiro Kuroki, Margaret Lo
Participants:	More than 50 participants, including representatives from developed countries, developing countries, international organizations, carbon market industry players and researchers

Key observations

- The clean development mechanism (CDM) has played an important role in the development of the carbon market. It should be preserved but with significant improvements to enhance its impact, efficiency, equity and cost-effectiveness.
- Additionality was seen as the biggest challenge of the CDM. Other concerns raised included transparency, imbalance of geographic coverage, and inefficiency and complexity of the process.
- The future of the CDM will depend on the deepening of emissions reduction commitments. The CDM and other market mechanisms would have no value if there is no demand for carbon offsets.

Proceedings

Changhua Wu opened the meeting with a brief presentation on the CDM Policy Dialogue, followed by an open discussion on the new market-based mechanism (NMM), the future of the CDM, and the relationship between the CDM and other mechanisms. The discussion was summarized in three sessions including the impact of the CDM, the operations and governance of the CDM, and the future context. The proceedings were held under the Chatham House Rule.

Impact:

Several participants, particularly representatives from developing countries, stated that the CDM had successfully promoted the development of renewable energy and drove investments from the private sector. The CDM was also widely recognized for its achievements in getting the private sector involved, creating a universal currency for the carbon market, and raising awareness on the economic value of carbon.

However, most participants stated that the scale of the CDM is insufficient to achieve the 2°C target, and needs to be scaled up. Some participants suggested that moving to a sectoral approach rather than a project-based approach could help scale up the CDM process. One participant suggested that the CDM could also cover products (e.g. renewable energy products) and product manufacturers to enhance its impact and coverage.

Operation and governance of the CDM:

All participants agreed that the current CDM system needs to be improved, and additionality was regarded as the most pressing issue to be reformed. Concerns on additionality include doubts over whether some projects are really additional, and the costs and complexity of the process to prove additionality. Some participants suggested that standardized baseline baseline could simplify the process of proving additionality and could lower the transaction costs, shorten the processing time, and enhance uptake of CDM projects.

Transparency, human rights issues, the imbalance of geographic coverage and under-representation of least developed countries (LDCs) were also cited by some participants as concerns over the current CDM process. One participant pointed out that although China has dominated the CDM process, which has aroused concerns from the international community, the differing levels of economic development of individual provinces in China should be acknowledged when considering the eligibility of CDM projects. One participant suggested that more technical assistance should be provided to LDCs to facilitate the uptake of the CDM in these countries.

The role and performance of the CDM Executive Board (EB) was also discussed. One participant stated that there is currently no formal mechanism for designated national authorities (DNAs) to provide feedback to the EB. To improve the transparency and efficiency of the EB, a few participants suggested that EB members should work on a full-time basis, and the processes of policymaking and implementation of the CDM should be performed by different bodies rather than both by the EB.

Future context:

All participants agreed that the key factor affecting the future role of the CDM and other mechanisms is the emission reduction commitment by countries; if there is no demand, there is no value for either the CDM or the NMM.

For the future of the carbon market, most participants regarded the avoidance of double counting as the most important issue. Some participants stated that it is important to link the emerging domestic and regional systems to create a global platform, while some suggested that the world should move away from pure offset mechanism mechanism in order to reach the 2°C target. A few participants expressed strong expectations for the NMM in vitalizing the carbon market, while some suggested that the Durban text is too vague for the private sector and hence there is currently a low expectation for the short term.

For the future role of the CDM, most participants held the view that since the NMM will take time to develop, and since both the private and the public sector already have a good understanding of the CDM, the CDM remains important for the time being and the existing capacities (such as methodologies) created should be maximized. A few participants also suggested that the NMM should build on the CDM by improving the existing mechanism. Many participants believe that the CDM will co-exist with and complement the NMM or nationally appropriate mitigation actions (NAMAs), but foresee it playing a different role in the future, probably moving to a sectoral approach. There were diverse views on whether the Global Climate Fund (GCF) should be linked with the CDM.

The meeting was closed with a short wrap-up by Changhua Wu, who thanked all stakeholders for their participation, and said that their opinions will be duly considered.