CDM Policy Dialogue: Summary of stakeholder engagement meeting in Brussels, Belgium

Date and time:	Friday 23 March 2012, 10.00 to 13.15
Location:	Centre for European Policy Studies (CEPS), Brussels, Belgium
Panel member(s):	Joan MacNaughton
Senior expert advisor(s):	Vanessa Cassano, Helle Juhler-Verdoner
Participants:	Approximately 20 participants, drawn primarily from European-based governments, business groups, and civil society organizations

Key observations

- The role of the CDM should be preserved – but its performance significantly improved – with a view to readying it for the future global climate system (in whatever form this system may take).
- The reasons behind the EU's decisions on restricting the admissibility of CERs into the EU ETS deserve further exploration.
- There is clear interest in further engagement, albeit less on general views and more on targeted questions addressing specific aspects of the CDM.

Proceedings

Joan MacNaughton opened the meeting with an overview of the objectives and process of the High-Level Panel, following brief welcoming remarks by Andrei Marcu (CEPS). The substantive portion of the meeting was divided into three consecutive sessions addressing the CDM's impact, operations and governance, and future context. The proceedings were held under the Chatham House Rule.

Impact:

This session included short presentations by Frank Vidar Melum (Point Carbon Thomson Reuters), Eva Filzmoeser (CDM Watch), and Miles Austin (CMIA).

On mitigation impact, participants focused on the role of the CDM in addressing HFC23/N2O adipic acid emissions (while noting that this debate will recede in view of recent measures to toughen methodologies as well as the impending ban on such CERs in the EU ETS as of 2013). Some participants suggested that, with respect to these and potentially other project types, the CDM creates perverse incentives and displaces investment from other mitigation activities, and that other policy measures (e.g. regulation) may be more appropriate. Other participants suggested that the CDM performs exactly as it was designed – identifying lowest-cost mitigation activities regardless of source – and, with respect to industrial gases, has been essential in familiarizing developing countries with the practice of mitigation and in demonstrating that abatement measures can be undertaken cheaply. Several participants emphasized that, for these reasons, the CDM should be technologically neutral.

On sustainable development, participants were divided on the effectiveness of allowing host countries to assess the contributions of CDM projects. Some participants suggested that many CDM projects are at best ineffective and at worst harmful, noting that some countries lack the capacity to make assessments effectively and, in some cases, do not fully consider the views of local stakeholders. Other participants suggested that mitigation is, by definition, a form of sustainable development. The case for having separate mechanisms for mitigation and sustainable development was mooted. Some participants favoured the use of best practice guidelines and objective criteria for measuring sustainable development, a greater voice for civil society, the ability of host countries to retract letters of approval, and the creation of financial incentives for maximizing sustainable development benefits. Other participants suggested positive lists for fast-tracking the approval of certain CDM projects.

On regional distribution, participants noted that the CDM is concentrated in a small number of economically advanced developing countries. However, one participant argued that this distribution reflects the market-driven nature of the CDM, affirming that investment conditions in such countries are generally more favourable to private-sector participation.

Operation and governance:

This session included a short presentation by Susan Haefeli-Hestvik (PDF).

Participants noted that significant strides have been made in operation and governance, pointing to the development in the capacity and participation of several host countries (including China), improved processing times for registration and issuance, and the UNFCCC secretariat's initiative to hire an external consultancy to improve internal management and business operations. Other participants cautioned that the current system remains problematic:

- The CDM Executive Board was criticized as being insufficiently professional, with members admitting that they cannot review all materials, nominations being largely a political process, and concerns about conflicts of interest. Participants suggested that the approach should shift toward a more standard regulatory (and quasi-judicial) model, including greater transparency, full-time executive officers accountable to the Board, face to face meetings with project developers and DOEs as appropriate, clear conflict of interest provisions, and an appeals mechanism.
- The UNFCCC secretariat was criticized in view of the perception that the UN has historically had little experience in regulation, and that it relies too heavily on desktop reviews.
- DOEs elicited mixed comments, with some participants arguing that greater powers should be entrusted to them, and other participants suggesting that they do not always exhibit consistent levels of quality and that performance is, in some cases, very poor.

Future context:

This session included a short presentation by Henry Derwent (IETA).

Participants noted the ability of the CDM to help countries and emitters meet mitigation targets more cost-effectively and also to enable the adoption of tougher mitigation targets. As such, they supported an ongoing role for the CDM in the future global climate system, with a need to ready the CDM for the most plausible scenarios that may unfold. In this regard, specific areas for work may include materiality thresholds, standardized baselines, streamlined registration and issuance procedures, moving to a programmatic rather than a project-based approach, clarification of E+/E-, and – more broadly – the approach to additionality. One participant noted that a decade has been spent in building the CDM and queried those who advocate new mechanisms – whether internationally or domestically – when the same effect may be achievable, potentially with less difficulty, by improving the CDM. It was also noted that the CDM can be used to support nationally appropriate mitigation actions.

All participants agreed that the key threat to the future role of market-based mechanisms is the lack of demand, noting that this depresses prices, inhibits new investment, frightens established investors, and leads existing investors to reduce (and even to exit) the market. All participants supported tougher mitigation targets at both the international and domestic levels, and generally opposed measures to restrict the use of CERs to meet mitigation targets (with several participants criticizing the EU's intention to restrict the use of CERs generated from non-LDC projects registered after 2012).

In closing, participants held that clarifying the CDM's objectives is crucial so as to ensure maximum market participation and to help define the appropriate governance structure and roles, taking into account the constraints of national sovereignty. Participants also recommended that the High-Level

Panel step up its engagement with legislators and regulators, both in the consultation phase and also after publication of the report, supporting a proactive strategy to ascertain and address their concerns.

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