

CDM Policy Dialogue: Summary of stakeholder engagement at the Sustainable Development Mechanisms Joint Coordination Workshop in Bonn, Germany

Date and time:	Saturday 24 and Sunday 25 March 2012
Location:	Hotel Maritim, Bonn, Germany
Panel member(s):	Valli Moosa and Margaret Mukahanana
Senior expert advisor(s):	Crispian Olver, Ritika Tewari, and Njogu Morgan
Participants:	The participants in the sessions consisted of representatives from various stakeholder groups such as the Executive Board and its support structures, Designated Operational Entities (DOEs), Designated National Authorities (DNAs) environmental NGOs, emissions traders, project developers, and consultants.

Key observations

- The EB has made substantial improvements in the CDM governance arrangements, but there are still inefficiencies in the project cycle requiring reform.
- Many stakeholders believe that the CDM has contributed to significant capacity development in developing countries, which needs to be utilized in the development of future market mechanisms.
 - The low level of demand in the carbon markets is a major challenge to the future credibility of CDM as a market mechanism.
 - Many participants were skeptical about the possible inclusion of REDD+ into CDM, citing methodological challenges with determining additionality.

Proceedings

Valli Moosa and Margaret Mukahanana held consultations with a wide variety of stakeholders during the Sustainable Development Mechanisms Joint Coordination Workshop in Bonn. Two parallel sessions were held - one dealing with governance and sustainable development impact of CDM and the other on the future context of CDM. Each of these sessions were moderated by Panel members in a dynamic manner allowing for interplay between questions, answers and comments.

Impact of CDM

There were mixed views on the impact of CDM. Some argued that the CDM has over time delivered real sustainable development benefits and led to huge capacity development (amongst DNAs in particular) in developing countries. It would therefore be a pity to lose this capacity. Some participants thought that attributing sustainable development and climate mitigation impact was a complex task requiring rigorous independent research. Given the import of these findings, it was suggested that they be made publicly available.

Additionality attracted a lot of debate, with a number of participants calling for more work in this area. One participant felt that the concept of baselines in CDM provides a disincentive to policies that reduce emissions and inversely serves as an incentive to policies that increase emissions. Though there has and continues to be attention paid to additionality matters by the EB, policy and market developments may present new challenges on additionality. For example the evolution of NAMAs may lead to double counting.

Regarding sustainable development, some participants argued that the stakeholder consultation process in the project cycle needs review given evidence suggesting some CDM projects are not contributing to sustainable development and may even be linked to human rights abuses. It was proposed that the panel investigate how other UN bodies could be involved in dispute resolution concerning human rights violations. One participant, while acknowledging the need to prevent violations, argued that solutions should be left to the host country. Instead the EB could develop guidelines on sustainable development criteria and processes for stakeholder consultation, but these should remain voluntary in nature.

Poor geographic distribution of CDM projects was raised as a concern by many participants. They called for greater equity - in particular to ensure that LDCs could benefit from carbon markets. In this light PoAs were viewed as containing elements that could increase CDM traction in underrepresented countries. However some participants, while sharing these concerns, were skeptical about the ability of CDM to penetrate geographic regions with low market activity and low emissions profiles.

Governance

Many participants noted significant improvements in CDM's governance arrangements. A culture of learning by doing was noted as a key reason for these improvements over time. However there were a number of current governance challenges participants wished the panel to focus on. There were repeated calls for further simplification of the project cycle such as greater user of standardised templates and greater sensitivity to project size. It was argued that the current approach prejudices smaller projects, leading to delays in the issuance of credits.

On crediting, some argued that there is a mismatch between current crediting periods and the period of expected project returns. It was argued that the current lengthy period (10-20 years) affects the financing arrangements that project developers need to secure from investment groups. Shorter crediting periods should therefore be explored.

Several participants argued that language is a major barrier with the requirement to submit key documents such as the Project Design document in English as an illustrative obstacle. One solution was to ensure that key bodies in the CDM such as the Methodologies Panel and Accreditation Panel have representation in all UN languages, thereby obviating translation requirements.

The relationships and interactions amongst different stakeholders were viewed to be problematic. Some called for direct communication between project developers and the Executive Board (EB). The current system is viewed as cumbersome and discriminatory, since it requires project developers to address their concerns indirectly through DOEs or to otherwise participate in consultation forums where EB members may be present. Another domain where it was thought stakeholders in the system could suffer disproportionately is in liability - for instance with respects to excess issuance of CERs. Participants argued that the current system is unclear and therefore open to unduly affecting specific. It was suggested that the policy dialogue should look for best practice in other regulatory bodies around the world to derive appropriate lessons.

Future Context

There were a wide range of views on the future context of CDM. Participants questioned the role that CDM could continue to play in depressed market conditions. The possible inclusion of REDD+ under CDM was viewed skeptically, with one participant citing huge additionality hurdles that CDM would have to resolve for a workable relationship.

Regarding the relationship between CDM and the new market based mechanism, the panel was advised to not view them as competitive instruments with zero sum outcomes. They could comfortably sit side by side for instance serving different geographies and crediting approaches. It was suggested that the panel should investigate transformation of CDM beyond the project-by-project approach into a more sectoral focus. In such a scenario care would need to be taken to be clear on what was meant by a "sector" and how the level of aggregation of projects would be done. Others contended that there was still a need for a separate project based mechanism, which would be more attractive to private sector actors than a sectoral one reliant on large scale policy actions. One participant argued that the panel should not concern itself with topics¹ that were already subject to international negotiations.

¹ Role of the CDM under plausible future scenarios for the international carbon market, relation between CDM and other new market based mechanisms and the potential to include REDD+ in CDM?