CDM Policy Dialogue: Summary of stakeholder engagement meetings at the Africa Carbon Forum in Addis Ababa, Ethiopia

Date and time:	Wednesday 18 April – Friday 20 April
Location:	United Nations Conference Centre, Addis Ababa, Ethiopia
Panel member(s):	Margaret Mukahanana
Senior expert advisor(s):	Crispian Olver and Njogu Morgan
Participants:	A wide spectrum of actors including carbon investment firms, project developers, multilateral organisations, civil society organisations, government agencies and media.

Key Observations

- As an off-setting mechanism CDM is essentially a zero sum game with no net global decrease in emissions. Any leakage from the system has effectively resulted in an increase in global emissions.
- CDM is seen as having played an instrumental role in changing attitudes regarding the role of the private sector in climate mitigation. It has also as influenced the design of offsetting systems worldwide.
- There is need for a more robust communications capacity that anticipates and responds to strategic challenges.
- The current low levels of demand in carbon markets will correct in time. CDM will continue to play a role in the future alongside other mechanisms, but this will be a reduced role determined by market and policy developments and international negotiations.

Proceedings

During the Africa Carbon Forum, Ms Margaret Mukahanana held a series of stakeholder engagements on the CDM. These were conducted in an open workshop format with invitations issued to all delegates as part of the ACF programme. In addition, views were sought in smaller group discussions with multilateral organisations, financial institutions, carbon fund representatives, non-profit organisations and designated operational entities. Each engagement commenced with an introduction of the CDM policy aims, objectives and work programme.

Impact of CDM

There was considerable debate on the emissions reductions impact of CDM. While opinions were divided, the majority of views were that as an off-set mechanisms CDM was essentially a zero sum game with no net global decrease in emissions, and that any leakage from the system effectively resulted in an increase in global emissions. Others argued that the availability of CDM has allowed Annex I countries the flexibility to set higher levels of mitigation ambition in global negotiations than would otherwise have been the case. The additionality of some projects was also a matter of dispute, with those emanating from emerging markets in question. Some participants did not believe that large scale projects such as supercritical power plants and hydro-power power plants needed CDM to be financially viable. In this light, it was argued that a key question for the Panel was to determine what projects need CDM revenues in order to be sustainable.

Stakeholders also noted other indirect impacts of CDM, such as influencing the design of offsetting systems worldwide and building awareness about the role of market based instruments in climate mitigation. On this latter point, the CDM is seen as having played an instrumental role in changing attitudes regarding the role of the private sector in climate mitigation.

With regard to sustainable development impact, many actors thought that this has been quite limited, in part because such value is not priced into crediting. One participant described this situation as "sustainable development having being divorced from CDM and carbon markets." Nevertheless, some held that in comparison to other mechanisms for channeling financial flows, CDM has excelled in limiting corruption.

Governance and operations

Panel members sought to understand how the system could be improved to better monitor sustainable development impacts of projects. Gold Standard methodologies were held as exemplars in this regard. On the other hand, while there may be merit in introducing greater scrutiny on sustainable development, a more rigorous system may counter-productively drive overall market prices down since it would result in no differentiation with Gold Standard credits. Other proposed solutions included embedding sustainable development criteria in the project verification stage, reviewing the Marrakesh Accords to ensure that minimum standards are adhered to, and formally extending the role of DNAs post project approval by affording additional powers such as withdrawal of letters of approval.

Some stakeholders proposed that a large number of governance challenges confronting CDM arise from conflation of a number of distinct governance functions - standard setting, accreditation and banking - which should be performed by separate institutions. Given increasing complexity, there may now be a need to separate these functions for better governance. Others disagreed, stating that in spite of the problems, the system has improved tremendously and performs relatively well under the circumstances. Radical changes might prove too disruptive, especially in a period of low demand and high project throughput.

Many participants argued that historically the CDM communication function has been very weak – though there has been some improvement. They called for a more robust communication arm anticipating and responding to key strategic challenges. It was suggested that an immediate challenge in the context of low investor demand would be to foster greater market certainty through a clear articulation of the process, rules of engagement and ways in which the system was acting to reduce investor risks. Further, many strongly argued that should suppressed demand be introduced into the system, it will require assurance of the environmental integrity of such projects coupled with innovative solutions to preserve the integrity of baselines.

On strengthening project verification, high DOE charges were reported as a key project barrier especially in developing countries. Some suggested that rather than launch investigations into price setting mechanisms amongst DOEs, it may be worth instead reviewing the accreditation rules to allow more players into the system. Finally, the Panel was asked to look into resolving some persistent administrative obstacles in the project cycle. These included speedier approvals of monitoring plans, clearer communication on reasons for project disapprovals and streamlining the website for easier and more efficient access to information.

Future Context of CDM

Looking into the future, participants argued that CDM will continue to play a role, but this will be a niche one determined by market and policy developments including international negotiations. One key policy driver is seen as the growing requirement for ambitious mitigation actions to match the requirements of climate science. Offsetting mechanisms may have a limited role within this schema. The emergence of new market mechanisms would also influence CDM, but not necessarily present a fundamental threat. For instance, it was thought that CDM would sit by side with the New Market Mechanism (NMM) serving different geographic regions and sectors. The key differentiation between the two mechanisms would be the one-to-one project based crediting of CDM vs. crediting sectoral approaches in the NMM. Whatever the eventual configuration, many called for an ordered and predictable transition process in order not to unduly disrupt the market.

On the possible inclusion of REDD+ into CDM, many argued that it would be ill advised given the methodological difficulties. Instead, REDD+ may sit more comfortably within the NMM as a "window." On the future location of CDM, many agreed that CDM should remain within the UNFCCC given the disruption and potential loss of institutional knowledge in relocation. Finally, participants offered several options to correct current market weakness. Some suggested limiting the types of projects eligible as a way of limiting supply and in turn raising prices. Others thought the CDM could explore purchasing of CERs by countries that have made pledges but are not signatories to the Kyoto Protocol. In conclusion while many were concerned about market turbulence, they argued that the reform agenda should proceed since the current downturn was likely to correct in time.