

CDM Policy Dialogue: Summary of U.S. NGO stakeholder engagement meeting

Date and time:	Tuesday 01 May 2012, 3:00 pm – 5:00 pm EDT (1500 – 1700 hours EDT)
Location:	The Climate Reality Project, Washington D.C., USA
Panel member(s):	Maggie Fox
Senior expert advisor(s):	Nigel Purvis
Participants:	Approximately 15 participants drawn from U.S.-based environmental non-profit organizations and research institutions including Climate Focus, Center for Climate and Energy Solutions, The Natural Resources Defense Council, United States Climate Action Network, Environmental Defense Fund, Center for Clean Air Policy, Union of Concerned Scientists, Stockholm Environmental Institute, The Nature Conservancy, and the Greenhouse Gas Management Institute.

Key observations

- **Impact:** the CDM has played a constructive role in the development of offset markets but it still suffers from many imperfections. The CDM has helped the growth of carbon markets through “learning by doing” but not achieved all of its desired results, especially in the area of promoting sustainable development.
- **Governance:** There is a lot of room for improvement. Ongoing reforms are on the right track but a range of critical changes is essential to make the CDM efficient, transparent and credible. Many of these have been identified but need to take effect or be strengthened.
- **Context:** The CDM must continue to maintain its credibility. While improvements to the project by project approach need to continue, the CDM may also want to experiment with more significant, outside-the-box changes to drive improvements in global offset programs and to help the CDM remain relevant in the emerging global context.

Proceedings

The meeting was called by Maggie Fox, who designated Kevin Curtis, Chief Advocacy and Program Officer of The Climate Reality Project, and Nigel Purvis, Senior Expert Adviser to Maggie L. Fox, to moderate the discussion. Kevin Curtis opened the meeting with an overview of the objectives and process of the High-Level Panel. He made brief welcome remarks. Nigel Purvis described the research agenda adopted by the panel and directed the stakeholders’ attention to the publicly available Research Program and the questions therein. The substantive portion of the meeting was divided into three sessions addressing the CDM’s impact, governance, and context. Nigel Purvis moderated the proceedings under the Chatham House rule.

Impact:

Given that the CDM has a twin objective of mobilizing market mechanism and sustainable development, participants felt that CDM had not achieved its intended impact in the area of sustainable development but had been more successful in delivering low cost emissions reductions. Examples of shortcomings included:

- Concentration of CDM projects in three main countries and lack of supply from Least Developed Countries (LDCs);
- Perverse incentives to increase emissions created by the CDM in the case of HFCs;

- Vulnerability of the CDM in the face of reduced demand for carbon credits.

Participants suggested that a study of existing options contracts for CERs could be a useful gauge of the confidence of the world in the CDM.

The majority of participants agreed that even though there have been bumps along the way, the CDM has succeeded in part by offering a valuable opportunity for learning by doing. Perfecting the mechanism before operationalizing it would have caused delays, but it was right to introduce the CDM when it was. The CDM has been a template for some countries to explore and initiate their own offsets markets and has created human capacity and local expertise in carbon markets.

The stakeholders agreed that improvements to the system could increase the CDM's impact. Further study needs to be done to determine whether the CDM had any impact on the ambition at UNFCCC Conferences of Parties (COPs), whether it engendered the development of verification systems and a project-based economy, and how to divorce the technical side of the CDM from political interests and pressures.

Governance:

Participants noted that the CDM process has undergone major improvements since it was first initiated, and that the direction of change has been positive. However, the pace of change has been slow and somewhat disappointing. They identified a number of reforms that they claimed would help the CDM be more efficient, transparent, and credible, including:

- Eliminating or reducing the influence of national politics within the Executive Board (EB). The operations of the UNFCCC secretariat and EB should be decoupled from the negotiations.
- Eliminating or reducing conflicts of interest. Specifically revising the verification process and potentially having a pool of verifiers that can be randomly selected for each project. Studying other offset mechanism standards such as the one developed by Climate Action Reserve (for California's market) could offer important lessons and features to emulate.
- Not allowing private, industry-dominated certifying bodies to determine certification standards.
- Adopting legal and regulatory measures to increase transparency, such as liability bonds used in the auditing industry, or creating the office of an Inspector-General for independent oversight.
- Instituting review mechanisms such as random audits and an appeals process.
- Streamlining appraisal methodologies through the development of standardized performance-based methodologies. However, there is a case for permitting project-by-project appraisal when needed because this may help new, innovative projects and methodologies to develop.
- Avoiding safe harbours for particular technologies that could create trade conflicts.

Context:

Stakeholders debated the relative merits of ways the CDM could respond to the evolving global climate context. Most participants expressed confidence in the CDM's credibility, its success so far and its potential in the future. Some noted that even if other market mechanisms take shape over the next decade, maintaining the credibility of the CDM is of primary importance so that it can offer a sound foundation on which to build any new, post-2020 mechanisms. The participants felt that too radical or large-scale of change could cause significant harm to the CDM's credibility. They also explained that it was essential for the CDM to avoid repeating the experience with HFCs if it takes on new programs like REDD or black carbon. They believed it was important to reduce uncertainty in the carbon market, including by avoiding oversupplying the market with credits and causing the price of credits to decline rapidly. At the same time, a few participants felt that a low price could theoretically increase ambition in combination with stronger targets in the compliance mechanism, but agreed that this was politically unlikely.

Participants also felt, however, that there was much the CDM could do through “controlled experimentation” to improve global offset programs, promote global mitigation regimes, and increase the relevance of the CDM. They continue to see the CDM as a means to experiment with new, relatively untested areas of carbon markets, enabling them to gain the credibility to achieve wider acceptance, as the CDM has done with many specific carbon market mechanisms in the past.

The participants further indicated that they see some regions exploring a move away from the CDM, as indicated by the new mechanisms in California and Japan, the new restrictions on CDM use in the EU ETS, and the push for a new market mechanism in Durban. Most felt that there was danger in creating several new models, and that they would all likely face the same growing pains as CDM. Nevertheless, they noted that experimentation with new approaches and other reforms would be necessary for the CDM to avoid becoming irrelevant in the world of diversified offset mechanism and undermining the efforts to protect the credibility of the CDM described above.

According to the participants, the “controlled experimentation” approach would also improve the probability of success for the reforms, relative to more wholesale approaches. They believed that overly ambitious reforms could lead to backlash in the global negotiations at the Conference of Parties and could create conflicts with the entrenched interests of the CDM EB.

In addition to this central message, some participants voiced specific concerns about the intersection between CDM and Nationally Appropriate Mitigation Actions (NAMAs). They indicated that potential overlaps between Nationally Appropriate Mitigation Actions (NAMAs) and a new, expanded CDM could create double counting and contribute to reduced ambition for countries to pursue NAMAs. These participants were also concerned about the CDM EB and UNFCCC secretariat becoming overly involved in NAMAs.

Some participants further voiced a specific alternative vision for the CDM. These individuals felt that the CDM should develop into an offset mechanism that targets least developed countries (LDCs) with the goal of helping them gain access to the carbon markets. These participants felt the CDM’s project-based approach is particularly well-suited for LDCs, though the CDM would have to be reformed to help lower the currently existing barriers to entry for LDCs. They believed that in this role, the CDM could both retain its relevance and role in experimenting and pushing the boundaries of offset mechanisms.