

**CDM Policy Dialogue: Summary of stakeholder consultations  
at the CDM Policy Dialogue side event during the UNFCCC negotiating sessions in Bonn**

Date and time:	17 May 2012, 13:15-15:00
Location:	Maritim Hotel, Bonn Germany
Panel member(s):	Margaret Mukahanana and Prodipto Ghosh
Senior expert advisor(s):	Crispian Olver
Participants:	Various interested Parties and observers attending Bonn negotiating sessions.

### **Key Observations**

- Participants agreed that monitoring of CDM projects should be divided between international monitoring of emissions and national monitoring of sustainable development.
- Regional distribution can be improved through incentives, simplifying methodologies, establishing universal baselines, reducing transaction costs, allowing automatic additionality for some types of projects and raising the threshold for microscale projects.
- The professionalization of the EB should also be accompanied by a clear splitting of roles between the EB as a policy making body and the UNFCCC secretariat. An appeals body must be independent from the EB, and appointed by and accountable to the COP.
- The new market mechanism was viewed as a distraction that was discouraging the development of CDM projects. CDM is already moving already towards sectoral approaches with standardized baselines and POAs.

### **Proceedings**

Prodipto Ghosh and Margaret Mukahanana opened the meeting with an overview of the objectives and process of the high-level panel. They invited participants to comment on any aspect of the impact of the CDM, its governance and role for the future. Particular questions were posed regarding the future of the CDM:

- What should be the role of the CDM under plausible future scenarios for the international carbon market?
- What should be the relationship between the CDM and other new market-based mechanisms?
- Should the CDM move towards sectoral approaches? In that case, is there a need for continued project-by-project offsetting?
- Should the CDM remain embedded in the United Nations/UNFCCC?

### **Impact of the CDM**

While most participants acknowledged the sustainable development impact of the CDM, and felt that improvements in methodologies and processes will deliver enhanced sustainable development outcomes, a number of them emphasized the need for ongoing monitoring of sustainable development benefits. This would bring a much greater degree of assurance that project claims about sustainable development are being achieved. Such monitoring could be done in parallel with emission reduction monitoring. Participants stressed that it was important to think now about how to address potential problems with current projects throughout their lifetime. Emphasis was also placed on recourse measures if sustainable development claims were not fulfilled. Such measures could include to suspend issuance until fulfillment of project commitments to sustainable development, or as a last resort to de-register a project.

However a number of DNAs pointed out that monitoring of sustainable development is the prerogative of host countries, whose DNAs must certify and monitor projects. The point was made

that there is no need to change the procedures laid down by the Kyoto Protocol, especially for monitoring of sustainable development. Participants agreed that monitoring should be divided between international monitoring on the emission side and national monitoring of sustainable development. However, some felt that the EB and UNFCCC secretariat have the expertise to aid DNA monitoring of sustainable development, and others suggested DOEs could assist DNAs. The need for stability in terms of the rules was also emphasized, including regarding monitoring of sustainable development.

The issue of skewed regional distribution has resulted in limited CDM projects in Africa. It was also noted that the CDM has not delivered projects in some sectors, such as agriculture, transport and forestry. Some participants proposed that quotas, to be negotiated under the COP, are set for regions. Others questioned whether quotas are feasible or appropriate, indicating that they might bifurcate the system. It was also noted that companies are looking for commercially driven business opportunities, and that the investment climate in countries was the most important driver of decisions. The suggestion was made to find a financial driver to establish the CDM in under-represented countries, possibly through subsidizing opportunities or incentivizing companies to invest in particular markets. Other solutions proposed were to simplify methodologies, establish universal baselines, reduce transaction costs, allow automatic additionality for projects such as renewables in LDCs, and raise the threshold for microscale projects (along the same principles as applied for energy efficiency).

Some concern was expressed regarding the EU decision to not allow CERs from industrial gas projects, an action which was viewed as unilateral by some participants. Participants stated that the EU's comitology process has no terms of reference, no start or end date, and is a major source of uncertainty in the market. The panel was encouraged to interrogate the EU's thinking behind the ban.

Proposals were made for a different kind of incentive mechanism to deal with industrial gas projects, and it was felt that windfall profits from these projects had affected the price of CERs. Other participants felt that such projects should be excluded on the basis of their sustainable development impact. Concern was also expressed regarding the decision of the EB not to revise the methodology for adipic acid, since a number of these projects were coming up for renewal. The panel was urged to investigate this.

### **Governance of the CDM**

A number of participants were complimentary about the work of the CDM EB, but felt that there needed to be a mechanism to professionalize the Board. It was suggested that EB members should be paid to do their job, and that Board members should have more time to prepare for meetings. The panel was advised to look at the amount of time EB members needed to perform their functions adequately. The professionalization of the EB should also be accompanied by a clear splitting of roles between the EB as a policy making body and the UNFCCC secretariat.

There was a large amount of support for an appeals body. This needed to be an independent body from the EB, and be appointed by and accountable to the COP. One participant questioned the need for a separate body to deal with the 1% – 2% of projects which were rejected, and raised the option of the International Court of Justice functioning as an appeals body for the CDM.

In terms of the future location of the CDM, it was argued that it should remain within the UNFCCC, since this gives it the necessary legitimacy, and that it should remain accountable to the CMP.

### **Context of CDM**

The volatility of CER prices, and the low level of demand for CERs, was perceived as a major problem, putting the future of carbon markets at risk. The markets needs the "political" signal of a robust price. The panel was urged to investigate how demand could be generated. Some participants

argued that multilateral institutions such as the World Bank should prop up demand and back up the market. The GCF could also play a role in financing “suppressed demand credits” from under-represented countries and retiring such credits from the market. Others argued for a common minimum price for carbon or a nationally determined floor price for credits. It was also pointed out that a number of developed country cities were creating demand through subnational emission trading schemes, e.g. the Tokyo metropolitan scheme. It was also proposed to restrict CDM only to CO<sub>2</sub> as a mechanism to address both geographical distribution and excess supply of CERs.

The interface between then CDM and the new market mechanism was discussed. Some participants were skeptical about when the new market mechanism would be ready, and felt that realistically this would be in 2020 along with a new political agreement. In the meantime, the new market mechanism was viewed as a distraction that was discouraging the development of CDM projects. The critical issue for the panel is to define the relationship between the mechanisms.

Other participants observed that the CDM is already moving already towards sectoral approaches with standardized baselines and POAs. It was also observed that forestry windows in climate investment funds were already supporting REDD+ projects.