CDM Policy Dialogue: U.S. carbon business community stakeholder engagement

Date and time:	Wednesday 18 May 2012
Location:	Offices of Baker & McKenzie, Washington D.C.
Panel member(s):	Maggie Fox
Senior expert advisor(s):	Nigel Purvis
Participants:	A broad cross-section of members of the U.S. business community working on carbon markets.

Key observations

- The CDM has had a large cultural impact, helping to spur the creation of offset mechanisms and cap-and-trade policies in many developed and developing countries. This impact will yield major mitigation and sustainable development benefits over the long run. The direct impact of CDM projects on emissions mitigation and development is much smaller but the wrong way to measure results.

- The CDM remains hamstrung by an inefficient, inappropriately structured governance system and operational modalities. In order to bring businesses back into the CDM market in a meaningful way and thus to grow market supply, the CDM would have to fundamentally reform its governance structure and operations. Even that, however, may not convince businesses to return to a UN managed carbon market.

- Going forward, the CDM should focus on fixing its current system. The CDM should accelerate the development of its existing products, especially PoAs. The CDM should also evolve into a voluntary standard setter or more formal regulator for other emerging offset mechanisms.

Details

Impact

The stakeholders participating in this event generally felt that the CDM has made a significant cultural impact that will drive a significant environmental and sustainable development impact in the long run. They believed that the presence of the CDM helped create an entire new set of entrepreneurs and ensconce the kernels of the ideas of offsetting and regulating carbon with markets that have spurred the creation of formal national and regional offsetting and cap-and-trade programs around the world. The fact that the CDM allows business to business transactions played a big role in enabling this success. The CDM also created a library of methodologies that enabled the development of other offset mechanisms. All of these will help reduce emissions and create sustainable development in the years to come.

As an example of this cultural and physical influence, one participant described how the CDM moved the Chinese government to support carbon policy, and how the Chinese tax on early CDM credits created a fund that built much of the existing carbon market capacity in China, enabling China to develop its own cap-and-trade programs. The participant also felt that the CDM kept alive the credibility of the concept of carbon markets by supplying a large number of credits from HFC projects and thus keeping prices in the EU ETS down in the early years.

The CDM also enabled some linking between existing and emerging carbon markets, such as the EU ETS, Norway, Switzerland, Japan, and Australia. The centralized issuance of credits by the CDM provided the necessary credibility and certainty to support this initial linkage. More generally, the CDM played a significant role in grounding and disseminating the idea of fungibility between markets, which is key to the success of future markets.

Participants did not feel, however, that the CDM has so far made a significant impact in terms of direct emissions. They argued that the total flow of CDM CERs paled in comparison to the number of tons emitted since the beginning of the Kyoto Protocol. Many felt, however, that this was the wrong way to measure the impact of CDM and that the environmental and sustainability impacts of the CDM should be evaluated more broadly and over a longer period of time. One stakeholder specifically recommended comparing the development impacts of the CDM to other sources of Official Development Assistance (ODA), many of which that stakeholder believed the CDM significantly exceeds.

The participants felt that the United States related to the CDM in a unique way. They believed that had the United States remained within Kyoto, U.S. businesses could have significantly contributed to the market. During the debate over comprehensive climate legislation in the U.S. Congress, the CDM and its failures provided fodder for opponents of the legislation, signalling to environmentalists that a market-based solution could allow emitters to avoid reducing their emissions and to conservatives that offsets would send large amounts of U.S. capital oversees to emerging markets like China and India. The general consensus among the participants was the CDM lost the messaging battle in the United States and that it this could not easily be reversed.

Stakeholders from the U.S. power sector, however, indicated that the power sector retained a strong interest in offsets. They believed that the United States would eventually develop a domestic climate policy and that the U.S. power sector would need offsets under such a program.

Governance

The stakeholders generally believed that the inefficiency and inappropriate structuring of the CDM governance system and operational modalities hamstrung the program. They objected first and foremost to the incompetence and political-orientation of the Executive Board, driven by it being composed of mid-level climate diplomats with abundant conflicts of interest. They also felt that the bureaucracy of the Secretariat contributed to this process by being difficult and opaque.

More generally, they believed that the EB and the Secretariat had pursued a singular focus on not allowing any false emission reductions to be credited and as a result they impossibly slowed down the entire process. The EB and secretariat demonstrated this institutional predilection and other flaws in unexplained and frequent changes in process and requirements and very long wait times for registration of projects, both of which contributed to business antipathy to the CDM.

Stakeholders had some mixed perspectives on the some of the other governance issues under consideration by the High-Level Panel. Stakeholders differed on whether the current system under which project developers paid DOEs to certify projects created a conflict of interest. They did agree, however, that the perception of a conflict of interest has created a lack of trust between the EB and verifiers, slowing down the registration of projects. The group generally supported the creation of an appeals process, but believed that the appeals process must be transparent and efficient and that only entities with a financial stake in the process should have standing.

Some stakeholders also suggested that the CDM might consider adding some of the practices of new U.S. offset mechanisms, such as developing standardized protocols rather than asking developers to design project-specific methodologies and standardizing the process of determining additionality. They also felt that the CDM should focus on developing methodologies for data-rich project areas, to maximize the supply enabled by each methodology.

Context

The stakeholders believed that the CDM has to solve its governance problems (as described in the section above). North American markets in particular will not accept credits from the CDM until these reforms happen, as illustrated by the decisions of California and Quebec not to allow CERs.

The stakeholders also felt that the CDM should accelerate the development of its current product offerings, especially Programs of Activities (PoAs). Many felt that investors would spend money on PoAs if the EB would issue PoA credits.

Stakeholders showed significant interest in the idea of the CDM functioning as a voluntary standard-setter or more formal regulator for other offset mechanisms. They proposed that the CDM could certify other offset mechanisms and provide a standard currency that would be accepted in various offset programs, thereby linking the carbon markets. The CDM could also facilitate bilateral agreements between national and regional carbon markets and encourage countries to participate in carbon markets. The stakeholders also felt that the CDM would benefit from this process as the emerging offset mechanisms would compete with the CDM, forcing the CDM to evolve and improve.

The stakeholders disagreed over whether the CDM should remain within the UNFCCC. Some participants felt that the association between the CDM and the UNFCCC gave the CDM legitimacy, and that the CDM should remain closely linked to the UNFCCC as the UNFCC is the primary driver of demand for CERs. Others felt that the private market did not trust the UNFCCC, especially after the early failures of the CDM, and that the CDM must leave the UNFCCC in order to improve its credibility in the business community and attract future private-sector investment.