



Report from Second Meeting of the High Level Panel for the CDM Policy Dialogue held on 30-31 May 2012, Frankfurt, Germany,

Final Report

1. BACKGROUND

The high level Panel for the CDM Policy Dialogue convened its second meeting from 30 to 31 May 2012 in Frankfurt, Germany. The meeting was attended by all Panel members and most advisers to the Panel. In addition staff from the secretariat, as well as the lead author, lead researchers and invited experts attended the meeting. Please refer to annex A for a complete participants' list.

The objective of the meeting was to take stock of findings from stakeholder consultations conducted so far, to review the progress of research commissioned by the Panel, and to initiate the drafting process for the final report by the Panel. In addition to a summary of findings from stakeholder consultations presented by the vice chair, the Panel also heard presentations from experts from the World Bank and UNEP, and updates from the lead researchers for impact, governance and future context of the CDM. The agenda for the meeting is attached in Annex B.

Since discussions repeatedly revisited key issues over the two days, this meeting report presents the discussions by theme and topic, rather than sequentially.

Overall the Panel made good progress in meeting the objectives of the meeting and started to discuss specific issues in more detail. However the Panel also noted that additional consultations need to take place, and the findings from commissioned research need to be finalized, before the Panel can further elaborate their discussions.

In terms of findings from the stakeholder consultations, the vice chair presented a synthesis report of comments and findings arising from consultations to date. The Panel took note of the report and agreed to the content of it. The final report which will incorporate additional inputs from meetings following the second Panel meeting will be ready for the third meeting of the Panel at the end of July. It was noted that the last stakeholder consultation is to be held in New Delhi on 16 July (please refer to www.CDMpolicydialogue.org for a complete list of remaining meetings in the CDM Policy Dialogue).

It was also noted that most elements of the research will be concluded in late June with the final research reports to be ready in early July. The Panel will reconvene in Johannesburg in the last week of July to continue their discussions.

2. MAIN ISSUES DISCUSSED

Based on the discussions with stakeholders to date, the Panel has observed a number of issues of direct relevance to the recommendations to be elaborated by the Panel (N.B. this is not an exhaustive list of all issues discussed):

2.1 *Impact of CDM*

- The Panel noted that preliminary research outcomes indicate that the CDM has a number of overarching positive sustainable development impacts, including capacity building for carbon markets in developing countries, new financing of mitigation projects in developing countries, and financial contribution to the adaptation fund. At the same time concerns have been raised about whether existing methods to ensure sustainable development are sufficient.
- For the sustainable development objective of the CDM, it is clear that there is a range of views among stakeholders regarding how this should be addressed, ranging from a top down standard with strict monitoring and reporting, to the current situation where governments define themselves what criteria to apply with no monitoring or reporting required, to a situation where sustainable development requirements are removed entirely from the CDM. The feedback from stakeholder meetings also indicates that some stakeholders consider this to be the prerogative of host countries to define, while other host countries are favourable to common definitions, but require support to be able to monitor and verify sustainable development aspects of CDM projects. The Panel noted that the Rio+ 20 meeting (20-22 June 2012) is to take stock of a report from the UN high level panel on sustainable development, and that this may provide better clarity on the concept of sustainable development. The Panel has commissioned research on this issue and is not yet ready to take a position.
- However the Panel does recognizes that the absence of reporting on how sustainable development benefits are generated by projects has led to a situation where the actual impact is very difficult or even impossible to assess. This exposes the mechanism to a situation where the fulfilment of one of the two main objectives of the mechanism can also be called into question. On the other hand, the Panel also took note that the CDM contributes in a direct and quantifiable manner to sustainable development through the share of proceeds that are set aside for the adaptation fund. Although this is not sustainable development provided in the context of individual CDM projects, it is sustainable development provided by the mechanism as a whole.
- The skewed regional distribution of CDM projects has been highlighted in a number of stakeholder consultations as a problem. At the same time initial research findings show that the picture depends on what metrics is used to describe the situation (number of projects, number of offsets generated, in absolute numbers, per capita, per GDP, per emission level etc). In this regard the Panel is not only considering how the share of

under-represented countries can be increased, but also the rationale for why under-represented countries should be increased, especially with regard to the objectives of the CDM (cost effective mitigation and contribution to sustainable development), and the objective of the convention (to increase net mitigation so as to meet the 2 degree C goal). The Panel also took note that the CDM loan scheme was established to support registration, verification and validation of CDM projects in under represented countries, and that this is a significant step taken to improve regional distribution.

- A large number of stakeholders emphasize that the CDM has contributed to a significant capacity building for market based climate mitigation approaches at the local level in many developing countries. They argue that this capacity building has spurred development of several domestic pilot schemes and represents a valuable resource that can be used both for continued CDM operations and for introducing new types of market based mechanisms. The Panel agrees that, for reasons of efficiency, further development of the CDM and other market based mechanisms should capitalize on the investments already made, and that competence built in the markets should be maintained to this end.

2.2 Governance of CDM

- Stakeholder consultations to date clearly reflect a commonly held view that there remain substantial opportunities for improving the governance of the CDM. This include for example issues related to streamlining/efficiency of the validation and verification processes, stakeholder consultations, and the need for an appeals mechanism.
- At the same time the Panel also noted that the CDM has undergone considerable reform in the past years. The effects of the reforms are reflected in elimination of the backlog of cases, reduced processing time, improved access to exchanges with the Executive Board (EB) and the secretariat, and introduction of standardised baselines and Programme of Activities. While there still remain opportunities for improvement of the governance of the CDM, the benefits achieved through the reform efforts are often not reflected in the general debate about the CDM.
- The Panel recognizes the concept of additionality as having both strengths and weaknesses for the CDM. On one hand, the methods used to prove additionality of projects are often seen as overly complicated, increasing risks and transaction costs for project developers, and are also at times criticized for not screening out all non-additional projects. On the other hand, additionality is recognized as a fundamental concept established to guarantee the environmental integrity of the offsets generated, which is seen as one of the key attributes and strengths of the mechanism. The Panel considers that additionality is a key issue that needs to be carefully taken into consideration. Innovative approaches to reduce the transaction costs and improve the reliability of additionality needs to be considered. Research commissioned by the Panel on this topic is still to be finalized.

- Several stakeholders have highlighted the need to rethink the governance model for the CDM, reflecting concerns that the CDM Executive Board is a part-time body with members appointed based more on their regional origin, and role as negotiators, rather than on the skills they bring to the board. The desire from the CMP to exercise political control over the appointment of EB members, and the role of the secretariat in supporting the work of the EB has also been discussed. The Panel has taken note of the criticism but not yet formulated a position as there is more research and stakeholder input to be considered first. It has, however, noted that there are models of governance in comparable public bodies, such as boards for central banks, that allow political control of appointments at the same time as ensuring the professional competence of the appointees. The Panel also noted that the EB and secretariat have, as part of the reform effort over the past few years, jointly sought to allow the EB to focus more on its executive functions by having the secretariat and other support bodies (the methodology panel and the accreditation panel) manage a larger share of the operational aspects of the mechanism.
- The Panel reflected on lessons learned from the CDM's sister mechanism, Joint Implementation (JI). The JI Supervisory Committee (JISC) has on its own accord initiated a reform effort of the JI, seeking to restructure and streamline the mechanism, including the abolition of the JISC itself. The Panel noted that JISC is subject to less scrutiny than the CDM Executive Board, partly because of the smaller size of the JI (in terms of offsets generated) but also because the JI does not create new offset units, but transforms Assigned Amount Units (AAU) to tradable Emission Reduction Units (ERU). This cap-to-cap environment allows the JI to follow a more direct process, also resulting in lower risks and lower transaction costs. The Panel agrees that lessons learned from the JI need to be considered when assessing the current function of the CDM.

2.3 Future context for CDM

- The current low level of offset prices has been highlighted by a number of stakeholders as a threat that could destroy markets. It is generally recognized that the price responds to the demand-supply balance, which in turn is subject to emission reduction targets, macro economic trends and a range of other factors
- A fundamental condition for the CDM, or any other market based mechanism, to function is that a healthy supply-demand balance for offsets exists in the market. While a large supply of offset credits reflects a large potential for low-cost emission reductions, the supply needs to be matched by sufficient levels of demand so as to provide incentives for project developers/investors and to allow sufficient offset prices to cover transaction costs. Current market projections indicate that the supply will exceed the demand over the next several years.
- The Panel needs to further analyze to what extent the supply-demand balance should be addressed, beyond the obvious recommendation that

parties should increase their mitigation ambition (also for the purpose of meeting the 2 degrees C goal), thereby creating an increased demand for offsets. In relation to the CDM specifically, there may also be a need to further pursue uptake of CERs in new and emerging domestic or regional carbon markets. The Panel has not yet taken a position on these issues.

- A recurring message from stakeholder consultations is that the world has changed, and the potential role of markets supporting mitigation, have evolved considerably, since the Kyoto Protocol was adopted in 1997. Considerable lessons have been learned and many stakeholders consider that the time is now ripe to reform the mechanism to respond to one or several of the following objectives:
 - In order to support the objective of the convention to meet the 2 degree C goal, the CDM could contribute to net mitigation, i.e. move from a pure offset mechanism to a mechanism where only part of the emission reductions generated by a CDM project are converted to offsets.
 - Technology transfer, or technology diffusion, should be recognized as a specific contribution of the CDM.
 - Energy security has been an important co-benefit of the CDM, and given its importance for most countries, ways of strengthening this need to be considered in the future.
 - The financial co-benefits in terms of raising private sector investments in support of climate change mitigation should be better articulated in the mechanism.
 - The concept of avoided emissions may be better integrated with sustainable development so as to better allow poverty reduction projects with emission avoiding aspects to be credited.

At the same time, some Panel members observed that the CDM can not be everything to everybody, which is why the Panel needs to carefully consider the key current and future purpose of the mechanism, also taking into account the view of parties on this issue.

- The Panel is not yet in a position to form an opinion about the role of the CDM in future (beyond 2020) carbon markets, but will do so when relevant research and all stakeholder consultations are concluded. However, it is clear to the Panel that in order for a global carbon market to function properly (with comparability and fungability of offset units generated in different markets or by different mechanisms) there is a need to establish a common standard to guarantee that “a ton is a ton”. Fragmentation of markets, in this regard, is not seen as a desirable situation by any stakeholder that the Panel has heard.
- The Panel noted that the CDM and CDM methodologies are already used as a reference for many other offset programmes globally. It was recognized that this standard setting function could be one of the most important future roles of the CDM, thereby contributing to the development of a more coherent global carbon market. With regard to the pre-2020 period, the parties have already agreed to the continued operation

of the CDM for the second commitment period (until 2017 or 2020). The Panel considers that in this transition period, before other mechanisms may become operational, the CDM may act as a bridge and reference to phase in new mechanisms and/or to reform the CDM to fit into the future climate mitigation architecture. In this period the functional relation between the CDM and the New Market Based mechanism (defined by COP 17) should also be clarified by parties.

- The Panel recognizes that the CDM constitutes a unique tool to enable international private sector cooperation to support the objectives of the convention. As part of its mandate, the Panel is asking the question whether, based on lessons learned, the private sector can have a role to play to support the long-term climate mitigation effort under the convention, and in such a case if the CDM, or a reformed version of the CDM, can fill that function, alone or in conjunction with other market based instruments. The Panel has noted that an overwhelming majority of stakeholders are of the view that the CDM needs to continue operations, but also that it needs to be reformed.

- The Panel noted that there are a number of specific issues about which current Panel research and stakeholder consultations need to provide more clarity in order to allow the Panel to formulate a position. This includes:
 - The potential to include REDD in the CDM. On one hand this can be seen as a measure that would increase the attractiveness of the CDM in some constituencies. On the other hand REDD could flood an already over supplied carbon market with offsets and it is not yet clear how issues such as additionality and permanence could be addressed for REDD. The Panel has commissioned research on this issue, which will be further considered.
 - The role of energy security as a recognized co-benefit of many CDM projects. As international energy markets are becoming more competitive, sustainable development are closer associated with energy security, which may therefore also need to be more emphasized in the future role of the mechanism.
 - The role of the mechanism to support innovation or diffusion of technologies is being researched as part of the work on impact of the mechanism. This aspect may be further strengthened in the future context., also in relation to potential recognition of avoidance of emissions.

3 PROCESSES IN THE POLICY DIALOGUE

3.1 Budget

The secretariat reported that the projected total expenditures for the CDM Policy Dialogue aligns well with the approved budget of US\$ 2,2 million. This includes costs for meetings, research, communication and other miscellaneous costs.

3.2 Meetings

The Panel reviewed the remaining meeting schedule for the Panel, and noted that the last stakeholder meeting will take place on 16 July in New Delhi.

It was noted that in a few cases the Panel may want to organize additional meetings with specific stakeholders, notably with regulators and policy makers in new and emerging carbon markets to discuss in detail their views on how CDM fits into these markets. Such meetings may be most effectively conducted through telephonic discussions. Since the Panel has members from many of the countries with emerging markets, it was agreed that each Panel member will take the lead in assessing whether additional meetings are required and to organize those meetings/phone calls themselves, or if needed, to request the secretariat to set up the meeting/call.

The Panel will reconvene for its third meeting in Johannesburg from 24 to 26 or from 25 to 27 July. The secretariat was asked to seek confirmation from Panel members what dates are most suitable. The Panel agreed to seek to conclude their deliberations at the Johannesburg meeting, as the time available for additional meetings is very limited (please refer below for the publications deadline). Three additional meetings are foreseen:

- A presentation of the report to the EB in Bangkok (exact dates to be confirmed). It was proposed that the chair and vice chair will attend this meeting.
- An official release of the report shortly after the EB 69 meeting. It is proposed that this should take the form of a press conference in London, for ease of access to concerned media. Dates to be confirmed.
- A presentation in a side event to COP 18 in Doha, Qatar, tentatively scheduled in the first week of the COP meeting, i.e. between 22 and 28 November.

The secretariat was asked to confirm dates and participation of Panel members in each of the above meetings.

3.3 Research

The Panel took stock of the research that has been initiated to support the CDM Policy Dialogue, within the three core research areas (impact, governance and future context of the CDM). The Panel noted that the selection process has been thorough, that all researchers are now contracted, and noted with appreciation that there is an even distribution of researchers from developing and developed countries. The three lead researchers each presented the current work and methodologies applied, and the research coordinator described the coordination set-up between researchers, lead researchers, and the lead author. The Panel asked questions, commented on approaches taken, and suggested specific aspects to be further considered in the research. It was noted that most research tasks will be finalized in mid-June, to be reflected in three consolidated research reports (one for each research area) by mid-July. It was further noted that the input to the research by the secretariat has been completed, and that research from the SEAs has by and large advanced well. Remaining input needs to be provided as soon as possible, being mindful that research that is based on stakeholder feedback can only be provided once the stakeholder consultation is concluded.

3.4 Preparation of final report

The Panel took note of the proposed structure of the final report, as elaborated by the drafting group together with the lead author. It was concluded that the lead author is to develop a draft report, as far as is possible without prejudging the recommendations of the Panel, and to make this available to the panel by 23 July 2012. The final report is to be presented to the CDM Executive Board at its 69th meeting, which will take place in Bangkok from 9 to 13 September 2012. The deadline for submitting the report to allow EB members to digest it before the meeting is accordingly 26 August 2012.

The Panel also decided that the report will be published electronically, but that a summary of the recommendations is to be translated into all official UN languages and printed in hard-copy. The secretariat was requested to prepare the process accordingly, and also to identify and engage services to provide the report with a modern lay-out and graphics.

The Panel requested the chair to draft a few initial recommendations, under his own responsibility, and to share them with Panel members, so as to help focus further discussions in the Panel.

3.5 Communication

The Panel recognizes that their mandate is provided by the CDM Executive Board, but that the EB is not the only audience for the Panel's report. The Panel intends to provide recommendations that concern all carbon market stakeholders, which is why the Panel wishes to also ensure as wide a reach of the report as possible. To this end the Panel has decided to release the report publicly at a press conference to be organized in London shortly after EB 69. The Panel will also present the report in a side event to the COP18 in Doha, Qatar (refer to "meetings" above).

The main channel of communication for the CDM Policy Dialogue is the website (www.CDMpolicydialogue.org). The chair has also informed parties in a letter to delegations that the CDM Policy Dialogue will release its findings publicly in September. The Panel decided to further strengthen the communication of the CDM Policy Dialogue by:

- Informing the EB in a letter from the chair about the progress of the CDM Policy Dialogue.
- Preparing pod-casts and video clips to highlight the message and recommendations from the Panel.
- Translating into all UN languages, and printing in hard copy, a summary of the recommendations (the main report will be prepared in English and will be issued as an electronic document).
- Organizing a press conference in London shortly after the EB 69 meeting to officially release the recommendations from the Panel.
- The chair and vice chair to provide exclusive interviews to a few selected media outlets.
- The chair and the vice chair to make themselves available for interviews, in particular immediately after the official release of the recommendations.

- For regional media, panel members individually to convene press roundtables (30-60 minutes with a few journalists) to present the recommendations in the report.

4 FOLLOW-UP ACTIONS AND NEXT STEPS

The Panel will meet next time in Johannesburg at the end of July. Actions, responsibilities and deadlines until then are summarized in Annex C to this report.

Annex A

LIST OF PARTICIPANTS

Panel members

Luciano Coutinho
Maggie L. Fox
Ross Garnaut
Prodipto Ghosh
Yolanda Kakabadse
Joan MacNaughton
Mohammed Valli Moosa
Margaret Mukahanana
Paul Simpson
Nobuo Tanaka
Changhua Wu

Senior Expert Advisers

Ingrid Burfurd
Vanessa Cassano
Helle Juhler-Verdoner
Akihiro Kuroki
Margaret Lo
Njogu Morgan
Crispian Olver
Nigel Purvis
Ritika Tewari
Sergio Weguelin
Naoyuki Yamagishi

Support staff

Luiza Curado (supporting Mr. Luciano Coutinho)

Lead Authors/Researchers

Simon Baptist
Mischa Classen
Nicholas Silver
Randall Spalding-Fecher

Guests

Jorgen Fenhann - UNEP Risoe
Alexandre Kossoy - World Bank
Klaus Opperman - World Bank
Kai-Uwe Schmidt - World Bank

PD staff

Pedro Barata
Samanthi Carlsson
Grant Kirkman
Niclas Svenningsen
Lindita Xhaferi-Salihu

Annex B:

Agenda

Chair: Mohammed Valli Moosa

Item	Time	Description	To be introduced by	Action required
Wednesday 30 May				
1.	09.00 - 09.30	Welcome and introductions	Chair	
2.		Stakeholder consultation		
2.1	09.30 - 11.00	Feedback from the stakeholder meetings	Vice-Chair, followed by brief reports from each Panel member	For noting
<i>Coffee break</i>				
2.2	11.30 - 12.30	Review of consultation programme and identification of gaps	Vice-Chair	For decision
<i>Lunch</i>				
3.		Research		
3.1	13.30 - 14.30	Presentation of and progress report on research programme	Research Coordinator	For noting
3.2	14.30 - 16.00	Presentation on progress with, and discussion on preliminary issues from Impact research area	Lead researcher: Impact	For discussion and strategic direction from Panel
<i>Coffee break</i>				
3.3	16.30 - 18.00	Presentation on progress with, and discussion on preliminary issues from Governance research area	Lead researcher: Governance	For discussion and strategic direction from Panel
Inf	18.00 - 18.30	Update on administrative issues	Secretariat	For noting
<i>Dinner</i>				

Item	Time	Description	To be introduced by	Action required
Thursday 31 May				
3.4	08.30 - 10.00	Presentation on progress with, and discussion on preliminary issues from Future Context research area	Lead researcher: Future Context	For discussion and strategic direction from Panel
<i>Coffee break</i>				
3.5	10.30 - 12.30	Scenarios for future carbon markets and CDM	Presentation by World Bank and UNEP Risø Centre, followed by paper to be presented by Ross Garnaut	For discussion
<i>Lunch</i>				
3.6	13.30 -15.00	The future role of the CDM relative to other mechanisms	Panel members to discuss	For discussion and strategic direction from Panel
<i>Coffee break</i>				
4.	15.30 - 16.30	Drafting		
4.1		Presentation of drafting programme	Lead drafter	For decision
4.2		Presentation of chapter outline for the report	Lead drafter	For decision
5.	16.30 - 17.00	Communications		
5.1		Report on communications programme	Secretariat	For noting
5.2		Ways to improve communications around PD	All Panel members	For decision
6.	17.00 - 17.30	Future schedule of Panel meetings	Chair	For decision
7.	17.30 - 18.00	Any Other Business	Chair	

Annex C

Follow-up actions agreed at second Panel meeting

Action	Responsibility	Deadline
1. Confirm exact dates for the next Panel meeting in Johannesburg	Secretariat to ask Panel members for their availability	Secretariat to inform chair about preferred dates by 14 June. Chair to inform Panel by 15 June.
2. Finalize draft meeting report and upload presentations to the share point	Secretariat	15 June
3. Confirm dates & participation in EB69	Chair, vice chair with support of secretariat	22 June
4. Prepare letter to EB68 providing an update about the CDM Policy Dialogue process	Chair	30 June
5. Prepare first order draft recommendations for circulation to Panel members	Chair	30 June
6. Confirm dates and venue for press conference for official release of final report	Secretariat to propose options to the chair	30 June
7. Conduct additional discussions with stakeholders as needed	Panel members Secretariat to support if requested	16 July
8. Conclude all research and prepare research reports for the three main research areas	Lead researchers with support from research coordinator Delivery of research input by SEAs and secretariat.	20 July
9. Finalize summary of stakeholder meetings	Vice chair, with support of all SEAs.	20 July
10. Prepare first draft report	Lead author	23 July
11. Prepare final report	Lead author & secretariat (for edit, lay-out and translation)	26 August
12. Prepare pod casts and video clips for dissemination of message from recommendations	Secretariat	15 September
13. Interviews and press roundtables	All panel members	From 15 September onwards.
14. Confirm date for side event at COP 18	Secretariat	As soon as possible (as COP18 side event schedule allows), target date 22 September