

CDM Policy Dialogue: Summary of plenary sessions in Bangkok, Thailand

Date and time:	7 June 2012
Location:	UNESCAP, Bangkok (Thailand)
Panel member(s):	Dr. Prodipto Ghosh, Ms. Changhua Wu
Senior expert advisor(s):	Ritika Tewari
Participants:	Government representatives from South and South-East Asia (12), Environmental NGOs (2), CDM Business Groups (6), DOEs (6), Financing Agencies (1) UNFCCC team: Niclas Svenningsen, Flordeliza Andres and Lindita Xhaferi

Key observations

- The new market mechanisms should be developed from the knowledge and experience of CDM.
- The standards and procedures set by CDM should play an important role in ensuring the fungibility of CERs in a fragmented future carbon market.
- CDM has not made significant contributions to transfer of technology and know-how to developing countries.
- CDM has played a significant role in redirecting financial flow from high carbon to low-carbon technologies.
- Sustainable Development indicators should be decided the host countries based on their national priorities, and not imposed from outside.
- The stakeholder consultation process under CDM needs to be improved.
- There is a need for more clarity in the roles and powers of the governance bodies in the CDM.

Proceedings

Dr. Prodipto Ghosh started the consultation by giving a welcome address. He briefed the participants about the progress of the panel's work. Responding to the question of some stakeholders on the impact of the policy dialogue's work, he mentioned that the panel is independent and will present its findings to the EB as well as the CMP. Next, Ms. Changhua Wu presented a set of questions to the participants and requested their views and comments.

Future Context

Most participants agreed that they see a role for CDM in future carbon markets. All participants stressed that the expertise and experience generated by CDM should be utilized to create the NMMs. The need for simplicity of procedures for Least Developed Countries (LDCs) in any new multilateral or bilateral mechanism was stressed.

Participants feared a risk of fragmentation of carbon markets. They suggested that the CDM should serve as an umbrella mechanism for emerging market mechanisms. Some participants stated that the CDM under the Kyoto Protocol created a legitimate carbon market. In a scenario where CDM exists with several emission trading schemes, it will be difficult to determine the fungibility of CERs. A participant suggested that the CDM registry can be expanded to include the regional markets to obviate risk of fragmentation. CDM business groups pointed towards the need for a 'seamless transition' into the New Market Mechanisms, giving due consideration to the

investments that are still waiting for payback. Some participants suggested that the CDM could play a potential role in supporting domestic policy targets of developing countries and as a means of regional cooperation. Some participants observed that DNAs should not be discarded but empowered further to play their role more effectively.

There was a mixed opinion among participants on whether CDM can promote useful learning by doing on REDD+. A large segment stated that only limited lessons can be drawn from CDM for REDD+. The key arguments stressed the importance of additionality in A/R projects, and the need for clearer definitions and robust stakeholder consultations.

The majority of participants recognized a role for project-based approaches in the future mitigation architecture stating that they are easier to implement, have lower uncertainties while emission reductions achieved are credible. However, it was suggested that scaled up approaches should be explored in future. Almost all participants observed that sectoral crediting is extremely complicated for developing countries. There are difficulties in defining a sector, data issues, challenges of incorporating the huge amount of technologies and heterogeneity within a sector, allocation of benefits and responsibilities. In a vote of hands, most participants expressed that CDM cannot contribute to a sectoral approach, while a few had no opinion about the issue.

Participants unanimously agreed that the Kyoto Protocol was a great achievement. It facilitated dialogue between Parties and raised awareness about climate change and emission reductions globally. On the role of the UNFCCC, all participants agreed that it is the appropriate body for governing the CDM. The need for improvements in CDM operation and financing to make CDM more credible and independent was also highlighted. Further, requirements of flexibility and direct interaction with stakeholders were mentioned.

Impact

Some participants observed that the CDM does contribute to net mitigation of greenhouse gases by taking a conservative approach in methodologies (issued CERs are 5-15% less than generated carbon reductions). Further, the project proponents do not always fulfill the issuance requirements due to regulatory issues, thus contributing to emission reduction. The spillover effects of CDM also contribute to emission reductions. Many participants were against the idea of discounting of CERs for enabling CDM to contribute further to emission reductions.

Many participants observed that the CDM contributes to sustainable development (SD) in several ways. Apart from country specific SD benefits, transfer of 2% CERs into Adaptation Fund should also be counted as a SD benefit. On being probed if the DNA should have the power to withdraw a Letter of Approval or ask the EB to stop issuance, some participant DNAs were of the view that DNAs already have the power to stop a project if it does not comply with the national environmental regulations. The example of Gold Standard was cited as a guideline to investigate SD benefits.

Responding to the question of whether there should be an international agreement on SD instead of national level standards, participants unanimously agreed that SD indicators should be decided by the host countries, as different countries have different development objectives. One participant observed that guidance from the EB in the form of a list of international SD indicators (especially quantitative monitoring of SD benefits) can be created and those DNAs who may want guidance may use it. Thailand was cited as an example of having well-defined quantitative SD

indicators. Reacting to monitoring of SD, CDM business groups stated that SD criteria should not be separately monitored as this would increase the transaction costs further for PPs.

Most participant DNAs expressed that creating standardized baselines requires a lot of effort to create more benchmarks and is time-consuming. The governments should be given the freedom to describe sectors.

Overall, most participants agreed that CDM has played an important role in promotion of renewable energy in developing countries. Participants stated that energy security is a key concern for developing countries and should be pursued with or without the CDM. It was observed that some sectors have not progressed well under the CDM as the income generated by the CDM is very low as compared to the huge investments required for the project (e.g. geothermal).

On the issue of technology transfer, participants largely agreed that the CDM has not been very effective. While it has facilitated use of some technologies, the technology diffusion impact is restricted to a few sectors and regions (e.g. wind; solar PV manufacturing in China). Some participants observed that CDM has also not helped countries in developing indigenous capability to replicate/develop technology. Participants agreed that the CDM has played a significant role in redirecting financial flows from high carbon to low-carbon technologies. However, some participants cautioned that financing in CDM should not be confused with financing contributions of Annex I parties. Some participants pointed out that regional distribution is a direct consequence of respective emission levels. Participants observed that there should be incentives for countries with very few projects rather than geographical quotas. The ongoing efforts to improve regional distribution, such as the CDM loan, were also highlighted during the session and the need for enhancing the capacity of DNAs was voiced.

Governance

There was a general agreement among participants that several improvements have taken place in the CDM procedures. Some participants observed the need for an appeals process to improve the process further. Some participants were of the opinion that the issue of additionality is very complex and differs across technologies. The issue of E+/E- policies and the difficulty in additionality assessment of PoAs was also raised.

On the issue of effectiveness of stakeholder consultations, most of the participants agreed that the current process is inadequate and requires improvement. A need for more prescriptive guidelines was felt by a few participants. One participant suggested that consultation with the local community should extend beyond the project design phase. Further, some participants suggested that the consultation should be documented and submitted to the DNAs as part of the issuance of the Letters of Approval to the project.

Several participants commented on the powers and roles of different governing bodies in CDM. It was widely agreed that there should be clarity in the roles and powers of governance bodies in the CDM. Some participants pointed towards the inconsistency in approval procedures adopted by different DOEs. Adoption of standardized approaches could be a possible approach to avoid such inconsistency. Some participants stated that the number of DOEs should be increased and there should be more DOEs from developing countries. This would decrease the transaction costs. On being asked for the possible reasons for few DOEs from host countries, participants stated that, at present, the high cost and frequently changing procedures for accreditation discourages local

experts to apply for accreditation. Other participants felt that a more significant issue is that DOEs should be aware of the local context.

On the issue of 'conflict of interest' of DOEs, participating DOEs stated that around 29% projects get rejected/terminated during validation by DOEs, which shows that they are professional enough in screening the projects. On being asked if the EB should pay the DOEs instead of project developers, participants mentioned that it would violate the independent position of DOEs as third party auditors.

Participants expressed mixed opinions on the composition and conduct of the EB. While the project developer groups suggested the requirement of a full-time, less political EB with broader representation (like JISC); other stakeholders stated that the representation and role of parties is indispensable in the EB. Some stakeholders mentioned that the EB's role should be supervisory rather than technical. Speaking against having a technical EB, a few stakeholders felt that knowledge of issues is more desirable than core technical competence for EB members and therefore the EB is professional enough.