CDM Policy Dialogue: India Stakeholder Consultation

Date and time:	16 July 2012, 09.00 – 18.00
Location:	New Delhi, India
Panel Member/s:	Dr. Prodipto Ghosh
Senior Expert Advisor/s	Ms. Ritika Tewari
Participants	Mr. Rajiv Kumar (Indian DNA), Ms. Irini Roumboglou (UNFCCC Secretariat), Ms. Rita Roy Chaudhuri (FICCI), and 25-30 stakeholders including project proponents, civil society, academia and researcher organizations, EB support groups and CDM consultants.

Key observations

- The CDM does contribute to sustainable development.
- If CDM is to contribute to net mitigation, the contribution should be symmetrical on buyers and sellers without creating disincentives for CDM participants.
- Cumbersome procedures of determining financial additionality and flaws in methodology documentation need to be removed to increase the efficiency of CDM procedures.
- The UNFCCC should have a pre-screening of projects and should allow citing precedents.
- In future, several markets may co-exist but there would be a need to ensure comparability between these and fungibility of the achieved emission reductions. The CDM may have a role in this but is not necessarily the best option.
- The CDM might face comparative disadvantages in relation to emerging international and domestic mechanisms due to high transaction costs and lead times, and uncertainty in prices.

Proceedings

The first session of the consultation in India was led by the representative of the Indian DNA who elaborated the role and significance of the CDM for India. Further, he expressed concerns about the falling CER prices and highlighted the need for higher commitments by Annex I Parties to overcome the crisis faced by carbon markets. Talking about the issue of sustainable development (SD), he mentioned that every nation has its unique SD policy based on national circumstances and priorities. Hence, the DNA is in the best position to decide SD criteria of their country. He cautioned that while standardized baselines are important, they might not be relevant in several developing countries as the sectors are heterogeneous.

The DNA session was followed by three plenary sessions on the impact, governance and future context of the CDM.

Impact:

Stakeholders generally agreed that the CDM has contributed to sustainable development. However, there was some disagreement between project developers and civil society participants. The DNA intervened and informed that evidence is examined to decide on a project’s contribution to SD, and that comprehensive stakeholder consultation guidelines exist. The DNA also informed about the release of a form for project developers with detailed questions on SD impacts and requirements of an elaborate SD plan. Some stakeholders highlighted that buyers can play a key role in enhancing high SD projects as they decide what types of CERs and from which projects they can be bought. This will also make investment in high SD projects remunerative for project developers.

Participants agreed that technology transfer is largely in theoretical terms in the CDM, and there is lack of any mandatory requirement for technology transfer. However, the CDM has given rise to a great deal of domestic innovation. On the issue of equitable regional distribution, some speakers highlighted that focus should also be on intra-regional equitable distribution giving examples of very poor regions in India where the CDM can play a role in fostering SD.

On the issue of standardized baselines, participants stated that circumstances differ in different regions within the country. This makes setting standardized baselines as per the technology difficult. However, they felt that the DNAs would play an important role to develop standardized baselines which could be focused to particular regions and particular technologies. Regarding the question on whether the CDM can contribute to net mitigation, participants emphasized that (1) this is already happening, and (2) that any more effort to enhance this impact should be symmetrical on the buyer and seller sides and, in any case, should not create any disincentives for project participants.

Governance:

The majority of stakeholders believed that CDM procedures are clerically oriented and are excessively time-consuming with high transaction costs. Pointing to flaws in the way financial additionality is assessed, stakeholders observed that the present methods are ineffectual. Some proposed that the requirement of financial additionality should be linked to the sustainability benefits delivered by projects and others suggested that financial additionality should be completely removed. Many speakers stressed the need for development of country specific sectoral benchmarks for IRRs, highlighting the irrelevance of currently used global benchmarks IRRs to country circumstances. Participants also explained the difficulties they faced in convincing financial institutions to invest in projects due to the high risks and uncertainties about the return on investment.

Most stakeholders agreed that the inefficiency in the CDM lies at the heart of the methodology documentation. Stakeholders stated that the articulation of requirements in a methodology is usually inappropriate with lack of an explicit list of criteria for additionality assessment. Others said that, in some cases, methodologies are technically erroneous. All stakeholders felt that the complexity of additionality had stopped some good projects and that additionality rules should be made simpler, but more robust and credible.

Several stakeholders, primarily project developers, quoted instances in which their projects were rejected for trivial reasons after a long waiting period. They recommended that the UNFCCC have a pre-screening of projects. This will reduce the efforts, resources and time for both project developers and UNFCCC. Further, they suggested that project developers should be allowed to cite precedents for ensuring transparency of decisions. Some stakeholders stated that several problems could be solved if there is direct communication between the UNFCCC and project developers. To achieve this, some recommended that decentralization of the registration process could be done for countries with large project pipelines. Country branches of the Secretariat can be established to coordinate and collaborate with the DNA.

Some participants suggested that there should be provision of some financial support for the development of a new methodology, as it is a tool that could benefit others in the future. A set of stakeholders demanded that an executive summary of the PDD should be available in local languages so that local communities, who are key stakeholders in the CDM process, could understand what will be the impact for them.

Regarding the validation and verification stages, stakeholders stated that the requirements during the validation stage are excessive and irrelevant for determining additionality in some cases. According to some, providing evidence in the validation process is an endless vicious circle.

The capacity of DOEs was also debated by some speakers who highlighted the issues project developers face with DOEs. Stakeholders mentioned that the system of having two different DOEs, one as a validator and another one as a verifier, is time and cost-intensive. It usually leads to differences in interpretation of issues, causing delays. Some speakers highlighted that lesser number of DOEs (especially with country specific technical expertise) causes delays in project processes. There were recommendations that there should be a process of empanelment of sectoral experts (at a country level) for sector specific monitoring. These sectoral experts could be identified, and the list could then be used by DOEs. Many speakers questioned the sincerity of validation agencies and expressed the need for an accountability mechanism for DOEs. One stakeholder suggested that the UNFCCC should have grievance procedures against DOEs.

On the issue of liability, stakeholders suggested that liability should arise only when there is an element of deliberate fraud involved on the part of project developers, and/or consultants, and/or DOEs. Stakeholders agreed that the DNA should file the liability claim. Participants agreed that an appeals process should be in place and suggested that this could be undertaken by an arm of the EB, familiar with the procedures. Further, many supported the view that the DNA should have the power to revoke the approval of a project if the violation takes place post registration.

With regards to professionalization of the EB, stakeholders suggested to establish a review mechanism that will prevent unqualified people from being appointed.

Future Context:

Stakeholders highlighted that environmental integrity, mechanism design and legitimacy has been the CDM’s comparative advantage. However, the CDM has comparative disadvantages due to high transaction costs, lead times and uncertainty in prices with emerging international and domestic mechanisms.

Stakeholders identified the lack of demand, primarily due to low mitigation targets by Annex I Parties, as a key reason for the present state of carbon markets. Project developers felt that only when the price of the CERs will go up, it would be worth investing in the CDM. It was stated that one potential way to address the issue of over-supply for CERs could be discounting the usage of purchased CERs by allowing users to only use a specific percentage of the bought CERs for their offset purposes. Another proposal to meet the issue of under-demand was that developed countries should have both national targets for GHG reduction and sectoral targets for intensity reduction, which can than absorb over-supply.

On the future of project-based approaches, speakers felt that their utility will be highly linked to the future climate regime. Until accurate sectoral benchmarks are created and for those sectors or plants within sectors which are not covered by initiatives like NAMAs and sectoral crediting, project based approaches will be relevant in the future too.

One speaker highlighted the REDD+ activities should be given a chance under the CDM at pilot scale. But REDD+ will take off if there are supplementary funds available for projects to support a minimum floor price.

On the future role of the CDM and UNFCCC, some speakers felt that the UNFCCC should have a role in judging the comparability of projects from other mechanisms in future. This could be done through CDM methodologies. However, it should not be the only modality, as the procedures in some national mechanisms - like the PAT in India - are considered superior. Another proposal was that the UNFCCC should create an online exchange trading system for project developers. Such a platform could exchange CERs with other types of reductions from other instruments/mechanisms in future. Many participants, including the Indian DNA, said that the different markets may co-exist and should ideally be fungible.