



AUSTRALIA

Submission to the Policy Dialogue of the Clean Development Mechanism | February 2012

I. Overview

Australia is pleased to make a submission to the Policy Dialogue of the Clean Development Mechanism (CDM). This submission contains Australia's views on opportunities and challenges facing the CDM now and beyond 2012.

The CDM has established – in a relatively short time – a credible, internationally-recognised, multi-billion dollar market with participation from a large number of developed and developing countries. Many of the processes and methodologies developed in the CDM have been emulated in other carbon market mechanisms.

Australia considers that the CDM will continue to play an important role beyond 2012 in delivering cost-effective mitigation and sustainable development. However the mechanism needs to continue to expand and improve to remain an important part of the international carbon market.

The international carbon market is likely to also contain a number of new mechanisms post-2012, so it is important that the CDM is well positioned to play an effective role in an expanding market.

Australia is of the view that the Policy Dialogue should consider the following three objectives for the CDM when making recommendations to the Executive Board:

- Scaling-up emissions reduction;
- Improving governance and efficiency; and
- Focusing on continued improvement of environmental integrity.

Australia has a clear interest in these objectives. Australia's Carbon Pricing Mechanism will create demand for Certified Emission Reductions (CERs). Greater demand for CERs – and increased engagement from the private and public sectors – will be the mainstay of the mechanism's future success.

In making this submission, Australia acknowledges the Executive Board's current work programme to strengthen the mechanism's efficiency and credibility.



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II. Scaled-up emissions reduction

The global carbon market is now worth around US\$142 billion¹ – up from just US\$30 billion in 2006 – as many countries take action to reduce emissions. However there is a need for greater action to keep the global average temperature rise below the 2 degree goal agreed by Parties. The CDM can play a key role in greater global action.

The Policy Dialogue should assess the CDM's ability to scale-up emissions reductions by examining the reforms required to:

- Accelerate the implementation of Programmes of Activities (PoAs);
- Move beyond the current project based approach to emissions reduction across policy areas or whole sectors of an industry or economy; and
- Ensure a role for this mechanism in the move towards implementation of Nationally Appropriate Mitigation Actions (NAMAs).

Australia is also of the view that, given the establishment of the Durban Platform on Enhanced Action, the Policy Dialogue should investigate the CDM's role beyond the Kyoto Protocol and as new market mechanisms are developed.

III. Improved governance and efficiency

The CDM's governance structures are distinctive in encompassing various levels of decision making across national governments, the United Nations Framework Convention on Climate Change, public and private sectors and a range of non-government organisations. Improvements in these governance structures are vital to the mechanism's ability to attract greater public and private sector investment and generating increased demand for CERs.

The Policy Dialogue should assess opportunities for improved CDM governance and efficiency by examining:

- The roles and responsibilities of the CDM Executive Board to ensure the provision of executive-level oversight; the relationship of the board to the CDM Secretariat and Panel/Working Group members;²
- The Executive Board's ability to implement guidance provided by the Parties to the Kyoto Protocol;
- Any measures required to avoid conflicts of interest by Executive Board or Panel members;

¹ Carbon market value for 2010, from *State and trends of the carbon market 2011*, World Bank

² In assessing the Secretariat's workload and responsibilities, Australia refers the Policy Dialogue to the independent review by McKinsey & Company, *Helping the UNFCCC secretariat improve its support to the Clean Development Mechanism and Joint Implementation*.



- Any measures required to ensure the necessary expertise and capacity are available within the Executive Board;
- The roles and responsibilities of Designated Operational Entities to ensure high performance; and
- The scope for further simplification of methodologies and tests for additionality and the continued development of standardised baselines, while maintaining environmental integrity.

IV. Environmental integrity

The CDM has mobilised billions of dollars to support clean technology and sustainable development. Environmental integrity of the CDM is critical to underpinning market confidence and increasing demand for CERs. There have been concerns that some projects have lacked additionality and environmental integrity. In response the Executive Board is implementing a range of CDM reforms.

The Policy Dialogue should assess environmental integrity in the CDM and the need for:

- Maintaining the integrity of the scheme while addressing the need to simplify processes and scale-up abatement;
- A review of the criteria established to guarantee the overall environmental integrity of the mechanism – drawing on best-practice approaches in other markets;
- A revision of stakeholder consultation guidelines for project participants, Designated Operational Entities and, where appropriate, Designated National Authorities – that draws on best-practice approaches in other industries;
- Measures to ensure the CDM is responsive to changing practices and policies, such as reviewing baselines to reflect technological improvements; and
- Strategic planning to enable the CDM to continue to address development needs such as the development of standards for suppressed demand.

V. Conclusion

The CDM has mobilised billions of dollars to support clean technology and sustainable development in developing countries. However the CDM needs to continue to change to remain relevant and competitive as international carbon markets expand and new mechanisms emerge. Australia looks forward to working with the Policy Dialogue to ensure the CDM is best positioned to contribute most effectively to global climate action.

