

Annex 3

SUMMARY OF THE INPUTS RECEIVED IN RESPONSE TO THE CALL FOR PUBLIC INPUTS ON THE SCOPE OF THE CDM POLICY DIALOGUE

1. At its sixty-fourth meeting, the Executive Board (hereinafter referred to as the Board) of the clean development mechanism (CDM) agreed to the terms of reference for the Policy Dialogue, considered issues to be included in the dialogue and agreed to launch a call for public inputs on the scope of the dialogue. The call for input was open from 27 October 2011 until 21 January 2012.
2. The call resulted in 58 submissions from a wide variety of stakeholders, ranging from intergovernmental organisations (such as the World Bank or several United Nations agencies) to carbon market participants and civil society organisations, to submissions from individuals. In addition, there was a reasonable variety in the regional background of the submissions. A breakdown of the submissions is shown in Figure 1 and 2.

Figure 1
Regional breakdown of submissions

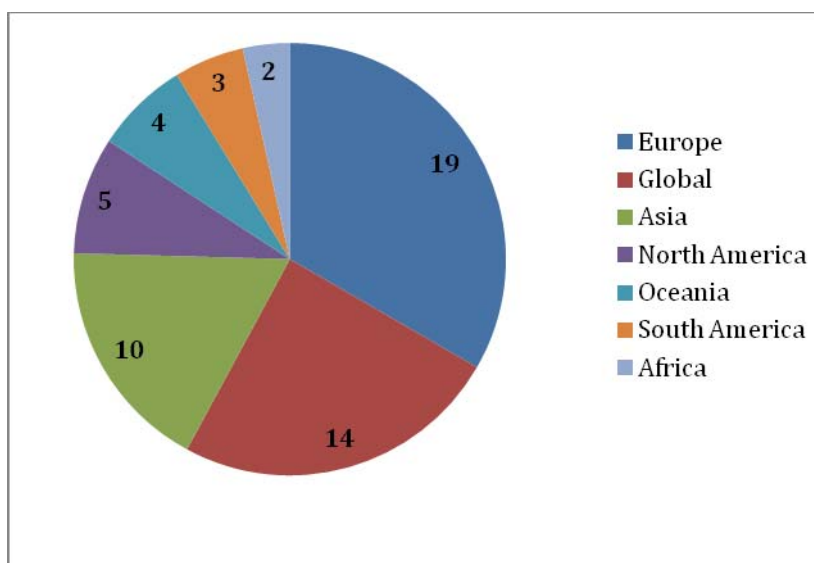
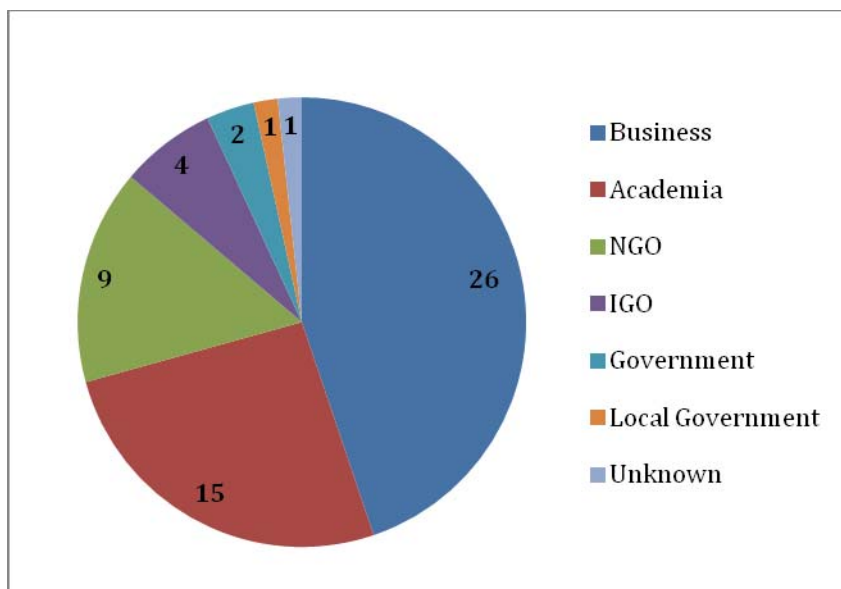


Figure 2

Breakdown by stakeholder type



3. Submissions received covered a wide range of topics and a number of possible classification schemes could have been presented. Based partly on the structure of some of the submissions, concerns/issues/topics expressed were gathered around five main clusters:

- (a) **Governance of the CDM:** shortcoming and challenges of the current arrangements; including issues related to election and composition of the Board, transparency of proceedings and information, issues of conflict of interest within designated operational entities (DOEs) and lack of an appeals or grievance mechanism;
- (b) **Methodologies and Processes:** inadequacies of the current additionality and baseline assessment, including lack of standardisation and the issue of perverse incentives in relation to national policies;
- (c) **Sustainable Development:** concerns on the lack of meaningful stakeholder participation in assessing project, along with concerns with sustainable development definitions and environmental and social implications of CDM projects;
- (d) **Trade and Finance:** concerns expressed as to the trade implications of the CDM, as well as implications to wider financing issues related to the transition to a low carbon society;
- (e) **Architecture of the CDM:** what is next for the CDM? Its context, relation to the Kyoto Protocol, to the new climate regime post-Durban and to emerging carbon market instruments.



4. The following paragraphs reflect in more detail on the issues raised in the submission in each main cluster. The full submissions can be accessed at:
http://cdm.unfccc.int/public_inputs/2011/eb64_02/index.html

I. Governance of the CDM

5. Issues frequently highlighted in the submissions with regard to the governance of the CDM include:

- (a) Despite existing provisions to ensure **transparency of decision-making** by the Board and other institutions, there have been repeated complaints of the closed nature of much decision-making at Board and Panel/WG level. This lack of transparency and access to Board decisions and their closed nature, led to the perceived need for an appeals or grievances mechanism of Board decisions;
- (b) In relation to the Board, its **election and composition**, some stakeholders would like to see an Board elected on the basis of merit and curricular assessment, rather than proximity to the negotiating process – it is felt that the focus on negotiators as nominees inherently may bias the flavour of the Executive Board towards a more politicized body than it need or should be. The Board should also look more closely at its own gender balance;
- (c) With respect to the role of DOEs, claims exist that the system may lead to inherent **conflicts of interest**: given that the business interest of the project participants relies in obtaining positive validation or verification opinions, DOEs will be under pressure from those who are in contract with them to facilitate such opinions. Several stakeholders perceive therefore the need for alternative arrangements for DOE selection;
- (d) A number of submissions also talks about the **high levels of complexity and low levels of consistency in decision making**, which has made CDM investments more risky. This is compared in some submissions to the use of international standards in other trade areas, where clear and consistently applied rules guarantees the outcome and reduce the risk associated with making investments.

II. Methodologies and Processes

6. In relation to methodologies and processes in CDM there is recognition that much has been done to improve and extend the reach of CDM. At the same time, however, there is much criticism of the methodology development process, of the additionality assessment used in most methodologies, and of the sectoral scope emphasised by the current list of applicable methodologies.

- (a) On the approach on **additionality**, there has been severe criticism of the approaches used in most CDM and estimates of a high proportion of non-additional projects in the CDM pipeline have been quoted, also in some submissions. Several stakeholders from different interest groups put forward alternative approaches to additionality in their submissions;
- (b) On **baselines**, much of the input received for the Policy Dialogue asks for an acceleration of the deployment of standardised baselines, whilst alerting to the



potential dangers to the environmental integrity of the mechanism stemming from ill defined and not-so-conservative standardised baselines. Concern was expressed by one stakeholder regarding the approach taken by the Board in the development of standardised baselines;

- (c) Concerns have also been expressed in relation to a set of **perverse incentives** that the CDM may be putting in place. The current application of “the E+/E- rule”, i.e. the rule on which national policies to consider in the establishment of the baseline, which was originally meant to address one set of perverse incentives, is seen by some stakeholders to have provided in fact a different set of problems. When applied uniformly across a whole sector in fast development, it has led the CDM to disregard the evolution of environmental and energy policy in non-Annex I countries, and may over time lead to ever more inconceivable counterfactuals (the ongoing disregard in the baseline of highly effective feed-in tariffs, for example). The Panel has been urged to consider the issue of E+/E- and the applicability of current regulation;
- (d) Whilst some stakeholders note that there has been an improvement of performance of the Board and secretariat in managing the pipeline of submissions, there have been requests for **further streamlining processes**. The Panel should conduct consultations to look to opportunities to increase overall efficiency of the system, streamlining and automating processes where feasible.

III. Sustainable Development

7. An enduring discussion under the CDM is that of the Mechanism’s contribution to sustainable development, which is highlighted by many submissions as a key issue to be considered by the Panel, as contribution to sustainable development is one of the two main objectives of CDM. In particular the following aspects are frequently commented upon in the submissions:

- (a) Many stakeholders emphasize **the lack of definition of sustainable development in the context of CDM**, which may lead, in a competitive instrument, to a lowering of the standards. The reliance on the designated national authorities (DNAs) may also increase that pressure, as many DNAs may not be well equipped to define and assess the host country’s priorities in its sustainable development. The Panel has therefore been urged to do an in-depth assessment of the role and practice of DNAs in relation to sustainable development, for example by assessing the use of sustainable development indicators in DNA project assessment, or by considering the introduction of a “no harm” assessment;
- (b) Civil society organisations have expressed repeatedly and also in the input received several inadequacies with the current system of **public participation** by stakeholders. These provisions are, according to some stakeholders, not allowing for the full and most effective participation of stakeholders, in particular at the local level;
- (c) Stakeholders have also raised the issue of **human rights**. In recent cases, the Executive Board was confronted with allegations of human rights violations as a result of proposed CDM project developments. The Board has responded by stating that it did not have the mandate to conduct investigations on human rights abuses. Several of the inputs claim that this may be too narrow an interpretation of its own mandate, and that the issue might be covered by the Board’s responsibilities vis-a-vis



the UN Charter. This issue is deemed by some stakeholders to be an issue to be investigated by the Panel.

IV. Trade and finance

8. Several submissions address the role of CDM in leveraging additional finance for climate change mitigation, and the relation between CDM and other models for financing mitigation and sustainable development in non Annex I countries.

- (a) Some stakeholders believe that **the level of transaction costs** involved in the development of CDM projects to date has severely stunted the possibilities for truly transformational levels of finance. The risk-reward balance is considered in this view, just not adequate or fit for purpose. At the same time, there is a need to look into ways of maximising any potential leveraging impact the CDM may contribute to the deployment of climate finance;
- (b) CDM project implementation requires in most instances the deployment of immediate financial resources in return for what may be an erratic, volatile and uncertain carbon revenue stream sometime in the future. In turn this requires either a strong reliance on upfront equity by project developers (something not usually available especially to smaller developers) or the construction of financial instruments that equate risks and rewards in a more favourable manner. **Several instruments have been proposed to deal with a number of carbon-specific financing risks** (such as “green bonds”). Yet, the use of such instruments is still limited, and their applicability in the CDM context is not known. The Panel has been asked to investigate the financing of CDM projects and the potential use of different financial instruments;
- (c) The risk for **carbon leakage** associated with CDM reflects the fact that companies exposed to carbon constraints in Annex I (for example, in the European Union carbon market) may choose to relocate or increase their emissions outside Annex I. By subsidising emission reductions outside Annex I in sectors in competition with Annex I companies, this effect may be reinforced by the CDM. The net effect of CDM could eventually even be negative. The Panel is asked by some stakeholders to investigate such carbon leakage and its extent, if any.

V. Architecture of the CDM

9. Submissions also address fundamental principles of CDM, including its ability to achieve its two basic objectives of mitigation and sustainable development, as well as its future role in a world with new mechanisms and more and possibly fragmented markets. Among the issues frequently discussed in the submissions are:

- (a) The CDM is an integral part of the Kyoto Protocol and has been conceived as an instrument to pursue the twin objectives of sustainable development in host countries and cost-effective mitigation opportunities in compliance with emission reduction targets by developed countries under the Kyoto Protocol. One view propounded by several stakeholders therefore is that **the future of the CDM is tied with the future of mitigation efforts under the Kyoto Protocol**;
- (b) Some stakeholders look however to a **future CDM which may encompass other roles**. While not denying the initial role of the CDM as a tool in the compliance



toolkit of Annex I Parties with targets under the Kyoto Protocol, they emphasize distinct features of the CDM – its role as a standard-setter for carbon offsets, or its use outside of the framework of the Kyoto Protocol;

- (c) While these broader views of the potential role of the CDM are expressed by some stakeholders, there is widespread recognition in the submitted material, of the **lack of balance between supply and demand** in the current market for CDM, with some stakeholders urging measures, such as price controls (e.g. “minimum price floor”). The current developments in the market lead many to question the viability of the CDM, if measures are not taken to address urgently the imbalance between supply and demand;
- (d) Recent decisions taken in Durban have launched the Ad Hoc Working Group on the Durban Platform, with a view to completing by 2015 its work on “a protocol, another legal instrument or an agreed outcome with legal force under the Convention applicable to all Parties”. In addition, the Durban Conference of the Parties *defined* a new market-based mechanism, which may or may not overlap in scope with the CDM. Several stakeholders therefore would like to see a particular focus of the Policy Dialogue on **the role of the CDM in relation to this wider context**, both of the negotiations on carbon markets, but also of the development of national initiatives on carbon markets in several Annex I and non-Annex I Parties;
- (e) Some stakeholders note that the objective of moving to vastly decreased global carbon emissions must eventually mean that **sole reliance in pure emission offsetting instruments** must eventually stop. Offsets are seen therefore as a transitional instrument towards a world with vastly reduced emission budgets requiring emission reduction efforts globally.

The submissions will be considered by the high-level Panel for the CDM Policy Dialogue at its first meeting in Bonn on 14–15 February 2012, based on which the Panel is expected to elaborate the work programme for the CDM Policy Dialogue.

History of the document

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