

December 10, 2012

“CDM Policy Dialogue High-level Panel: Question and Answer Session” Side Event Report

Overseas Environmental Cooperation Center, Japan (OECC)
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This is a report of a side event held at the 18th Session of the Conference of the Parties to the UNFCCC (COP18) from November 26th to December 7th 2012, in Doha, Qatar.

- Title : “CDM Policy Dialogue High-level Panel: Question and Answer Session”
- Date : 13:15-14:45, Wednesday, November 28, 2012
- Organizer(s) : Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC)
- Venue : Side Event Room 2, Qatar National Convention Centre
- Presenter(s) : Prodipto Ghosh (Member, CDM Policy Dialogue / TERI), Randall Spalding Fecher (University of Cape Town), Pedro Martins Barata (Consultant to UNFCCC), Axel Michaelowa (Perspectives), Erik Haites (Margaree Consultants)
- Abstract: Insights from the large amount of research carried out under the CDM policy dialogue this year has been presented. The research findings, along with an extensive programme of stakeholder consultations, formed the basis for the recommendations of the High-Level Panel on the CDM Policy Dialogue. The panel urged for extensive reforms of the CDM and provided recommendations to address the crisis in international carbon markets. The research findings touch on a range of fundamental issues, such as the actual contribution of the CDM to mitigation and sustainable development, the governance system, including the role of and the requirements for the CDM Executive Board, the concept of additionality, and the necessary conditions that need to be met in order for the CDM and other market mechanisms to function in the future.

■ Summary

1. Prodipto Ghosh, CDM Policy Dialogue Panel Member
 - Introduction of the CDM Policy Dialogue and panelists.
2. Erik Haites, Margaree Consultants: “Climate change, carbon markets and the CDM”
 - He introduced the CDM Policy Dialogue and explained that it has been launched last year in Durban (COP17). Its objective is to make recommendations on how best to

position the CDM to respond to future challenges and opportunities, and how to ensure the effectiveness of the CDM. <Report available at www.cdmpolicydialogue.org>

- He explained the process how the Report has been written and the outcomes. Also, he remarked the fact that consultations and opinions have been gathered and considered for inclusion.
- After deliberations, the report focused in three research areas: Impact of the CDM, Governance, and Consultations.
- As a conclusion, he indicated that mitigation pledges fall far short of what is needed to allow carbon markets to function. Well regulated carbon markets including the CDM have an important contribution to make in the global mitigation effort. Finally he indicated that carbon markets can bring much needed private sector financing into the GHG global mitigation efforts.

3. Randall Spalding Fecher, University of Cape Town: “Research on the impact of the CDM”

- He pinpointed several issues in relation to CDM such as cost effectiveness.
- He recalled that majority of studies agree that CDM has likely had a positive impact on sustainable development in host countries, but there is no real certainty without an appropriate monitoring. Specifically on regards to technology transfer, a significant but minority share of projects in respect to a total number of CDM projects, also involved technology transfer.
- As for the impact of CDM, he explained that assessment of net GHG emissions reduction impact of the CDM depends mainly on determination of sector additionality, but positive and negative impacts are possible and significant. This comprise a challenge, since it is difficult to judge additionality for large scale power projects, which are also have the largest share of clean energy investment in CDM.
- He remarked that each country’s situation has to be considered. Many smaller countries have no CDM projects. He recalled some examples of countries where very limited impact on energy efficiency and access to modern energy services was notorious until recently, and so, potential has to be reconsidered.
- He gave some options for enhancing the impact of the CDM, specifically on regards to sustainable development, he suggested to provide a menu of sustainable development indicators, also to monitor sustainable development benefits, and finally to improve safeguards against negative impacts.

4. Pedro Martins Barata, Consultant to UNFCCC: “Governance of the CDM”

- He gave an introduction of the Governance Framework of the CDM Policy Dialogue and

explained how they have retrieved opinions from different stakeholders to get as much information as possible. Based on this information, he selected some key questions and the corresponding recommendations (also included in the Policy Dialogue document¹), which are listed below:

- Can the project cycle be further streamlined to improve efficiency and reduce costs? Recommendation: High priority should be given to the ongoing projects that aim at an automation of the workflow and prioritize further work of the framework and observe emerging findings critically.
- Should the methods for determining additionality be changed? And if so, How? Recommendation: To prioritize the establishment of standardized baselines, reduce timelines for registration, modify existing rules for assessing additionality and baselines.
- Does the UNFCCC Secretariat discharge its functions effectively? Recommendation: To establish a mutual accountability framework between the EB and the Secretariat; to vest a body within the Secretariat with explicit decision-making power so as to ensure an efficient daily operation of the CDM.
- Should the current validation / verification model be reformed? Recommendation: Do not change contractual agreements for DOEs; to evaluate concerns for accreditation framework prior to deciding on liability for issuance of CERs.
- <All the recommendations can be found in the report>

5. Axel Michaelowa, Perspectives: “(title of the presentation unidentified)”

- He reported on three papers written by himself on CDM and markets, which can give a different perspective on these topics.
- He highlighted scenarios in the CERs market price, indicating that there has been a constant decline since 2011 showing an alarming performance in just 18 months. He supported this opinion through graphs and tables.
- He indicated that the later implies that the current price level does not constitute an incentive for most CDM project types, and that the supply-demand balance of the CDM even in the same year varies considerably.
- He concluded this part saying that policy makers should work hard in Doha trying to comply with commitments and showing some strong signals to parties, so that confidence is restored and the demand for CERs might rise.
- He also analyzed the rise of new market mechanisms and suggested, in a negative way,

¹The document can be downloaded from <http://www.cdmpolicydialogue.org/report/rpt110912.pdf>

that this may have a negative effect into the CDM process.

- As for the Japanese initiative (BOCM) he indicated that it seems to have failures in respect to the issue of environmental integrity and also transaction costs.

■ Q&A

Q. <Wuppertal Institute>

Three questions: 1) issues such as overcrediting and undercrediting are very intriguing. Please provide opinion of the correct perspective; 2) please elaborate on how CDM has helped AI countries, how amounts have been calculated; 3) please elaborate on the governance of the EB and what kind of problems are found.

A. (Unidentified): It is necessary to analyze the signal to noise problem. In fact, to pick up the CDM signal is extremely difficult. Not really sure how to detect signal to noise.

A. Barata: Discussions have been centered in overcrediting. So far, nobody tried to quantify undercrediting. The panel is in the process to try to give a more accurate picture.

Q. <Carbon Market Watch>

Three questions: 1) Please elaborate on additionality assessments of large scale projects; 2) in relation to the Stabilization Fund, how could you do the operation and ensure additionality at the same time; 3) Regarding offsetting, how the CDM is performing against other policy options?

A. Michaelowa: A lot of analysis on policies of renewable power projects or low carbon projects have been done by providing feed-in-tariff for example. In the classic CDM such policies are not introduced because large projects are likely not to be additional. Policy should be accompanied with projects assessment.

A. Barata: The research has been conduct in an independent away from the panel. We are trying to get as much information as possible. As for the Stabilization Fund, there has been a deliberation in the last panel meeting on how to operationalize it.

To access the COP18 Side Event Reports, please refer to the following link:

http://www.mmechanisms.org/e/relation/details_oecc_COP18report.html