

## PRESS RELEASE

### **High-level panel calls on nations to safeguard future of CDM and carbon market as tools to combat climate change**

(Bonn, 10 September 2012) – The independent high-level panel established to take stock of the Kyoto Protocol’s Clean Development Mechanism (CDM) has released its eagerly awaited recommendations by urging nations to intervene forcefully to address the crisis in the carbon market and substantially increase their level of ambition when it comes to reducing greenhouse gas emissions.

The ability under the CDM to earn a saleable credit for each tonne of GHG emissions reduced has spawned more than 4,500 project in 75 developing countries, everything from wind energy and efficient cook-stove projects to land-fill gas and large industrial projects. The CDM, credited with creating the first global environmental currency, is now under threat due to the current low prices paid for credits, the result of low demand and uncertainty over the timing and level of future demand, which is tied to countries’ emission-reduction commitments.

According to the high-level panel, if nations permit the CDM mechanism to disintegrate, the political consensus for truly global carbon markets may evaporate. Therefore, the panel calls on nations to increase their mitigation ambition by strengthening the pledges that have been made under the United Nations Framework Convention on Climate Change and by adopting corresponding domestic policies and measures.

“Nations must, as a high priority, restore faith in global carbon markets generally and in the CDM specifically,” said the Panel’s Chair, Valli Moosa. “Although the CDM has been the subject of extensive criticism, it has improved markedly in recent years and has helped combat climate change by mobilizing the private sector through markets.”

The CDM was set up to do two things: give countries with a commitment under the Kyoto Protocol some flexibility in how they meet those commitments, and assist countries to achieve their sustainable development goals. The mechanism has been criticized by some stakeholders for being too stringent and slow, and by others for not being stringent enough in ensuring that the emission reductions produced are additional, and would not have happened anyway, even without the CDM. Other stakeholders have questioned projects’ contribution to sustainable development, responsibility for which is left up to host countries.

To address shortcomings and improve the mechanism’s reputation and performance in the future, the Panel recommends fundamental reforms of the CDM’s operating procedures. More specifically, the Panel calls for:

- more systematic reporting, monitoring, and verification of sustainable development impacts;
- greater access for under-represented regions through simplified procedures;
- revised criteria for the composition of the CDM Executive Board (CDM EB) to reflect not only regional distribution, but also professional knowledge and experience;
- implementation of standardized methods, such as performance benchmarks and positive lists, for assessing additionality.

In addition, the Panel urges nations to take measures to enhance the CDM’s role so that it adapts to new political and market conditions. More specifically, the Panel recommends that:

- new approaches, such as sectoral crediting or national REDD+ programmes, be implemented;
- new projects that reduce HFC-23 or N<sub>2</sub>O from adipic acid plants be phased out;

- robust standards to enable linking and harmonization of current and emerging carbon markets be set;
- the rapid implementation of the Green Climate Fund be supported.

The wide-ranging research programme commissioned by the panel found that over the past decade, the CDM alone has helped nations mitigate approximately one billion tonnes of GHG emissions in a manner that realized US\$3.6 billion in savings for developed countries. Over this same period the CDM has mobilized more than US\$215 billion in investments in developing countries, thereby accelerating economic growth and poverty alleviation.

“New market-based mechanisms will take years to design and make operational. For the balance of this decade the CDM is likely to remain the world’s foremost means of gaining the benefits of a truly global carbon market. The panel believes that a strong and robust CDM is necessary to support the political consensus and bring the benefits of carbon markets to developing countries,” said the vice-chair of the panel, Joan MacNaughton.

To make the CDM fit for the future, the panel recommends 51 actions across 12 areas. Its recommendations cover issues such as the crisis of demand, mitigation impact, linking of carbon markets, sustainable development, regional distribution, governance structure, additionality, stakeholder and public engagement, as well as mechanisms for appeals and grievances.

In formulating its recommendations, the high-level panel commissioned a wide-ranging research programme addressing 22 topics across three main areas: the impact of the CDM to date; the governance and operations of the CDM; and the future context in which the CDM could operate. It also organized a stakeholder consultation programme holding dozens of formal and informal meetings around the world.

The panel, which officially presented its report at the sixty-ninth meeting of the CDM Executive Board in Bangkok, urges that its recommendations be implemented fully and without delay with a timetable agreed that will bring them into effect by the United Nations Climate Change Conference scheduled for December 2013.

Besides the chair Valli Moosa (South Africa) and the vice-chair Joan MacNaughton (UK), the other members of the high-level panel on the CDM policy dialogue are: Luciano Coutinho (Brazil), Maggie L. Fox (USA), Ross Garnaut (Australia), Prodipto Ghosh (India), Yolanda Kakabadse (Ecuador), Margaret Mukahanana-Sangarwe (Zimbabwe), Paul Simpson (UK), Nobuo Tanaka (Japan) and Changhua Wu (China).

#### **Useful links:**

[www.cdmpolicydialogue.org](http://www.cdmpolicydialogue.org)

[www.cdm.unfccc.int](http://www.cdm.unfccc.int)

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#### **About the CDM**

The clean development mechanism (CDM) allows emission-reduction projects in developing countries to earn certified emission reductions (CERs), each equivalent to one tonne of CO<sub>2</sub>. CERs can be traded and sold, and used by industrialized countries to meet a part of their emission reduction targets under the Kyoto Protocol. There are more than 4500 registered CDM projects in 75 developing countries. To date, more than one billion CERs have been issued.

## **Recommendations:**

The Panel recommends the following 51 actions across 12 areas to address the crisis in international carbon markets and to make the CDM fit for the future (the actors responsible for each recommendation are indicated in brackets at the end of each paragraph):

### **1. Urgently address the immediate crisis of demand**

1.1. As a matter of urgency, increase mitigation ambition by strengthening the pledges that have been made under the United Nations Framework Convention on Climate Change and by adopting corresponding domestic policies and measures. What is important for the future of international carbon markets is that mitigation targets are tightened and taken seriously. **(National governments)**

1.2. Ensure access to the CDM as a tool to help national governments (and the emitters that they regulate) to achieve their mitigation targets in a cost-effective manner. The use of the CDM should not displace the focus on effective domestic mitigation actions. To unlock the full potential of the CDM, all countries should be enabled to use CERs, not only those with mitigation targets under the Kyoto Protocol. **(National governments, CDM Executive Board)**

1.3. Investigate the establishment of a new fund and/or enable existing or emerging funds to purchase and to cancel part of the current overhang of CERs. National governments could be invited to meet part of their commitments to international carbon finance through contributions to this fund. The CDM Executive Board could be authorized to use a portion of the financial reserves of the CDM to establish and commence the operations of this fund. **(National governments, CMP, CDM Executive Board)**

1.4. Consider the establishment of an institution to serve as a de facto reserve bank for CERs, charged with stabilizing the market. **(CMP, CDM Executive Board)**

1.5. Pending the restoration of realistic pricing in CER markets, care should be taken in expanding the supply of CERs without creating disincentives for project developers or investors. **(CDM Executive Board)**

### **2. Develop new approaches to enhance mitigation impact**

2.1. Develop and test sectoral approaches within the CDM, while maintaining the availability of the current project-based approach. **(CDM Executive Board)**

2.2. Develop and test project-based and/or national/sub-national REDD+ programmes, while implementing appropriate controls to mitigate risks. **(CMP, CDM Executive Board)**

2.3. Develop and test approaches to achieve a net mitigation impact, on both buyer and seller sides, while avoiding disincentives for project developers and investors. **(CMP, CDM Executive Board)**

2.4. Stop registering new projects involving gases with comparatively low marginal costs of abatement (e.g. projects that reduce HFC-23 and projects that reduce N<sub>2</sub>O from adipic acid plants), which have matured to the point of being ready to graduate from the CDM. Regulation may be needed to ensure the phase-out of these industrial gases. **(CMP, CDM Executive Board)**

### **3. Set robust standards to enable linking and harmonization**

3.1. Identify and develop standards that anticipate the needs of emerging market-based mechanisms, particularly in the measurement, reporting, and verification of emission reductions and the tracking of mitigation outcomes. **(CDM Executive Board, UNFCCC Secretariat)**

3.2. Actively seek opportunities for collaboration with other market-based mechanisms, including those designed and implemented at the national level, around common functions such as standard-setting, accreditation, registration and issuance, capacity-building, and communication. **(CDM Executive Board, UNFCCC Secretariat)**

3.3. Ensure the comparability among the standards used across market-based mechanisms, both inside and outside the Convention, in order to minimize regulatory inconsistency, to safeguard environmental integrity, and to promote fungibility. **(National governments)**

3.4. Establish a common registry function that tracks mitigation outcomes effectively, so as to avoid double counting across different types of market-based mechanisms. **(National governments, UNFCCC Secretariat)**

3.5. Improve regulatory engagement and outreach efforts to regulators of emissions trading systems, including through the dissemination of lessons learned from the CDM. **(CDM Executive Board, UNFCCC Secretariat)**

### **4. Support the rapid implementation of the Green Climate Fund**

4.1. Promote the use of CDM standards and methodologies in accounting for payments for verified results, so as to leverage the achievements, knowledge, and resources of the CDM. **(Green Climate Fund Board, CDM Executive Board)**

4.2. Apply the standards and methodologies developed under the CDM as a way to facilitate the implementation of mitigation activities supported by the Green Climate Fund. **(Green Climate Fund Board, CDM Executive Board)**

### **5. Implement standardized methods for assessing additionality**

5.1. Increase the use of standardized approaches, such as performance benchmarks, in the assessment of additionality. These should be set conservatively to ensure additionality across a population of similar projects, and should account for technology- and context-specific factors, moving away from more subjective and unverifiable financial additionality tests. These changes should by no means lead to weakening of the additionality test as conducted today, and in fact may lead to questioning the continued inclusion of certain technologies in specific locations where they are likely to be the norm. A timetable should be set for implementing these changes. **(CDM Executive Board, UNFCCC Secretariat)**

5.2. Identify positive lists to simplify additionality assessments for project types and contexts where there is a low risk of non-additionality. **(CDM Executive Board, UNFCCC Secretariat)**

5.3. Ensure that the focus of incentives constantly shifts to the next generation of technologies, in order to drive technological change. In order to achieve this, standardized baselines and parameters must be periodically reviewed according to the pace of technological progress. **(CDM Executive Board, UNFCCC Secretariat)**

### **6. Ensure that CDM projects help to achieve sustainable development**

6.1. Assess the contribution of CDM projects to sustainable development in the project approval process in a transparent, inclusive, and objective manner. Where host countries do not have the capacity to do this and at their request, the CDM Executive Board could designate an appropriate and mutually acceptable independent authority to do so, and should also help national authorities to develop such capacity. **(Host countries, CDM Executive Board)**

6.2. Report, monitor, and verify sustainable development impacts in a more systematic and rigorous manner throughout the lifetime of a CDM project. Project participants should be required to declare, in their requests for registration and issuance, how a project assists the host country to achieve sustainable development in a manner that allows for comparison across projects. **(Host countries, CDM Executive Board, project participants)**

6.3. Enhance safeguards against negative sustainable development impacts. If a credible allegation is made that a project has negative impacts, it should be investigated by the host country and, if substantiated, result in corrective measures. Some negative impacts (e.g. the use of child labour) are non-negotiable reasons to reject a project. **(Host countries)**

6.4. Enable a host country to withdraw its approval of a CDM project if, following an objective and transparent assessment process, the project is proven to have a harmful impact on sustainable development. **(Host countries, CDM Executive Board)**

6.5. Provide increased support, including capacity-building and best-practice examples, to host countries that request it in order to perform the above functions. **(CDM Executive Board, UNFCCC Secretariat)**

### **7. Strengthen co-benefits and enhance the scope of energy technology**

7.1. Encourage the increased development of projects with high co-benefits (e.g. household-level service projects), including through simplifying requirements, standardizing registration and issuance procedures, and using positive lists. **(CDM Executive Board, UNFCCC Secretariat)**

7.2. Explore opportunities for cooperation with other international institutions and financial mechanisms in support of co-benefits generated by CDM projects. **(CDM Executive Board, UNFCCC Secretariat)**

7.3. Promote greater take-up of new energy technologies in the CDM, such as energy efficiency, renewable energy, and carbon dioxide capture and storage in geological formations. **(Host countries, CDM Executive Board)**

7.4. Stimulate collaborative technology development and local technology innovation. **(CDM Executive Board)**

## **8. Encourage greater access to the CDM for underrepresented regions**

8.1. Prioritize the development of CDM projects in developing, non-high-income countries, with very few projects that have issued CERs. **(CMP, CDM Executive Board, UNFCCC Secretariat)**

8.2. Enhance the accounting of suppressed demand for energy services, so as to increase the potential for participation in the CDM in low-income countries with currently low levels of emissions. **(CDM Executive Board)**

8.3. Accelerate the development of standardized parameters, including baselines, and simplified procedures for household-level services (e.g. electrification, water purification, sanitation, cooking) and public services (mass transport, lighting and municipal renewable energy programmes). **(CDM Executive Board, UNFCCC Secretariat)**

8.4. Introduce a new grant scheme and expand the existing loan scheme to further reduce financial barriers to the implementation of CDM projects. **(CDM Executive Board)**

8.5. Mobilize finance towards the building of capacity for hosting CDM projects in underrepresented countries. **(International, regional, and national development banks)**

8.6. Share experiences and best practices, particularly within regions. **(Designated national authorities)**

## **9. Rethink existing governance arrangements**

9.1. Reorient the CDM Executive Board towards policy and strategy issues, while delegating project-specific and technical decision-making to the UNFCCC Secretariat (including rulings on requests for registration and issuance). **(CDM Executive Board, UNFCCC Secretariat)**

9.2. Adopt an accountability framework to clarify and strengthen the relationship between the CDM Executive Board and the UNFCCC Secretariat. This framework should include a service level agreement with performance indicators for the UNFCCC Secretariat, as part of the annual Management Plan, and the CDM Executive Board should be responsible for performance management of the UNFCCC Secretariat in the discharge of these duties. This framework should also identify what the CDM Executive Board should do to facilitate and to enable the UNFCCC Secretariat to deliver on its mandate. **(CDM Executive Board, UNFCCC Secretariat)**

9.3. Develop and implement robust codes of conduct for all members of the CDM governance structure, including the CDM Executive Board and the UNFCCC Secretariat. These codes of conduct must include means for objectively assessing and addressing conflicts of interest. **(CDM Executive Board, UNFCCC Secretariat)**

9.4. Revise the criteria for the composition of the CDM Executive Board to reflect not only regional distribution, but also professional knowledge and experience (e.g. from carbon markets, economics, communication, legislation, governance, and working experience from other boards). Based on such revised criteria, a transparent process of selecting candidates, following a public call for nominations, should be undertaken by a selection committee. The committee would propose candidates to be appointed by national governments. **(National governments)**

9.5. Enforce term limits on membership of the CDM Executive Board, with terms as members and as alternate members both taken into account. The suggested term limit is two three-year terms. After a combined six years of service, whether as a member or as an alternate member, a person should not be eligible to be nominated to the CDM Executive Board again. Care should be taken to ensure that the expiry date of terms is phased so that the CDM Executive Board has a mix of experienced and new members and retains institutional memory. **(National governments)**

9.6. Over the longer term, the CDM should evolve toward a more decentralized system of operation in which the issuance of CERs could be undertaken by certified national and regional authorities in accordance with guidelines by the CDM Executive Board. **(National governments, CMP)**

## **10. Improve stakeholder interactions and public engagement**

10.1. Improve accessibility and respond to stakeholders properly and professionally, promptly answering complaints and queries. **(CDM Executive Board, UNFCCC Secretariat)**

10.2. Designate a contact person or “account manager” within the UNFCCC Secretariat for stakeholders in respect of individual cases, with the ability to provide technical clarifications and guidance. **(UNFCCC Secretariat)**

10.3. Adopt a strategic communications policy, including processes for responding to criticism and for enabling the dissemination of accurate and accessible information to a broad audience, to ensure the fair coverage of issues relating to the CDM. **(CDM Executive Board, UNFCCC Secretariat)**

10.4. Establish guidelines for adequate local consultation procedures to ensure local community stakeholders are properly notified and consulted on proposed project activities. **(CDM Executive Board, UNFCCC Secretariat)**

### **11. Establish independent mechanisms for appeals and grievances**

11.1. Implement the appeals mechanism, which is currently being negotiated, for registration and issuance decisions. Both positive rulings (i.e. approvals) and negative rulings (i.e. rejections) should be appealable. Grounds for appeal should be limited to procedural and substantive issues related to the CDM modalities and procedures. Provisions should disallow frivolous or vexatious appeals, require appeals to be filed within a reasonable and defined timeframe, and require appellants to satisfy admissibility criteria. Remedies should include confirming, remanding, reversing, and/or modifying the decision. The appellate body should be independent from the CDM Executive Board and operate according to a strict code of ethics and conduct. Members of the appellate body should be appointed by the CMP. **(CMP)**

11.2. Establish a grievance mechanism for local stakeholders to address environmental and social concerns and to facilitate the resolution of issues emerging after the registration of a project, while fully respecting national sovereignty and without impeding ongoing project operations. The mechanism should be established at the national level, but can be supported by existing CDM institutions if requested by a host country. **(Host countries)**

### **12. Promote regulatory certainty and streamlining**

12.1. Designate a champion among the members of the CDM Executive Board to identify and propose streamlining measures, to be supported by the UNFCCC Secretariat. **(CDM Executive Board, UNFCCC Secretariat)**

12.2. Pursue the digitization of content and the automation of workflows in order to facilitate transparency and consistency. **(UNFCCC Secretariat)**

12.3. Increase the use of standardized approaches and elements in validation and verification procedures. **(CDM Executive Board, UNFCCC Secretariat)**

12.4. Strengthen the training of, and communication with, designated operational entities in order to ensure a common understanding of rules and expectations of validation and verification results. Parallel training for project developers should also be provided. **(CDM Executive Board, UNFCCC Secretariat)**

12.5. Revise rules and procedures only at pre-defined points so as to guarantee a certain level of confidence and consistency in the application and interpretation of current rules, while avoiding retroactive application. **(CDM Executive Board, UNFCCC Secretariat)**