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### **Stakeholder input for the CDM policy dialogue (areas for improvement)**

We suggest that the CDM policy dialogue includes the following areas for improvement of the Clean Development Mechanism (CDM) for the future.

- **Standardization and environmental integrity:** CDM procedures have become complicated and burdensome due to the need to ensure environmental integrity, whose lack has been criticized by researchers (e.g. Schneider, 2007). Is there a way to ensure environmental integrity, while keeping transaction costs low? The efforts of COP and the CDM EB to standardize baselines and additionality assessment are most welcome in this regard, but need to be checked with regards to the impact of specific benchmarks on environmental integrity. In particular, decisions on stringency, aggregation levels, updating procedures and data requirements need to be informed by technology/sector- and country-specific analysis (Hayashi et al., 2010). The CDM may also learn from standardization within the EU ETS, US initiatives and the CSI (see Castro et al. 2011a). Furthermore, CER discounting (Chung, 2007; Schneider, 2009; Castro and Michaelowa, 2010) is to be considered for ensuring environmental integrity under standardization.

- **Relationship to new market mechanisms:** In Durban, a new market-based mechanism (NMM) has been established. While this NMM has to be further defined, it is clear that the relationship between the CDM and this NMM has to be established: can the CDM offer an institutional setting (rules, boards) for the NMM? How are overlaps addressed? Can CDM projects be integrated into the NMM? Should CDM projects be allowed to continue in countries and sectors where a NMM is established? How will CERs be accounted once a NMM in the same sector and country exists? Not addressing these questions may lead to overlaps in institutions, different rules and quality levels, double counting and uncertainty, which all affect effectiveness of both the CDM and the NMM (Schneider and Cames, 2009; Aasrud et al., 2010; Butzengeiger et al., 2010; Wentrup et al., 2011)

- **Fruitful interaction with national climate policies in developing countries, including Nationally Appropriate Mitigation Actions (NAMAs):** The interaction of national climate policies and the CDM has been mainly discussed on a technical level in the past (baseline and additionality as in the E+/E- rule). In the face of a growing role and a recognized need for domestic-level policy making that favors emission reductions (including NAMAs), we see three needed reforms: 1) clarification of E+/E- rules, 2) clarification of CDM eligibility under NAMAs with international support (Hayashi and Wehner, 2012) and 3) a more strategic combination of national policies and the CDM from the international policy level (Castro et al., 2011).



- **Use of CDM beyond Kyoto compliance:** Until now the CDM has almost exclusively been used for compliance with the 1<sup>st</sup> commitment period of the Kyoto Protocol. While this role will continue, the demand is restricted due to rules in the EU and missing demand from other countries. Therefore, the CDM governing bodies will have to think about further ways of using the CDM MRV rules and projects: e.g. voluntary offsetting, NMM, spending of public finance, NAMAs and future emission reduction commitments under the Convention (Müller and Ghosh, 2008).

- **Promotion of the CDM's sustainable development benefits:** Various studies (e.g. Sutter and Parreno, 2007; Alexeew et al., 2010) have shown that reducing emissions (and additionality) has become the prime purpose of the CDM, while the other goal, supporting sustainable development in developing countries, is only partly fulfilled. More sustainable benefits can be harnessed by, e.g., accounting for suppressed demand in baselines, developing standardized methodologies for under-represented sectors and countries and restricting projects with high windfall profits and low "low sustainable development benefits (e.g. HFC), which may be financed by public funds (Stadelmann et al., 2011).

- **Improving CDM capacity:** In the past CDM capacity building has often been duplicated, not rely been owned by the host country and not necessarily focused on the countries with the biggest need (Okubo and Michaelowa, 2010). Future capacity building activities should be focused on Least Developed Countries, Programmes of Activities and particularly financial institutions in host countries (Stadelmann and Michaelowa, 2011).

Sincerely,

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