



## **SUBMISSION BY DENMARK AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES**

**This submission is supported by Bosnia and Herzegovina, Croatia, Iceland, the Former Yugoslav Republic of Macedonia, Serbia and Turkey**

**Copenhagen, 20 January 2012**

**Subject: Clean Development Mechanism – Launch of the Policy Dialogue**

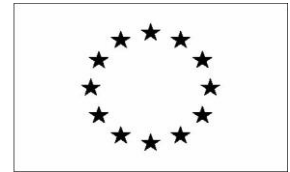
*Submission on issues to be addressed in the CDM policy dialogue*

### **Introduction and Summary**

1. We welcome the Executive Board's launch of the policy dialogue to review past CDM experience and help ensure the readiness and positioning of the CDM to meet the challenges of the post-2012 period. We also welcome the opportunity to provide input on issues to be addressed in the dialogue, including external forces affecting the CDM, expected future challenges, opportunities and possible directions for its future use and development.

### **General Comments**

2. The EU is the major proponent of the CDM and to date, EU Member States and companies have provided a majority of the demand for CERs. The EU supports the continuation of the CDM in the post-2012 period on the basis of continuing effort to improve the mechanism.
3. We expect that the output of the dialogue will be particularly relevant to the ongoing negotiations and the revision by the CMP of the modalities and procedures of the CDM and to the work of the Executive Board and the secretariat.
4. In our view, the policy dialogue should evaluate the performance of the CDM based on experience to date and on the basis of its contribution to the dual purposes of the CDM: achieving greenhouse gas (GHG) emissions reductions and contributing to sustainable development in the host country. More specifically, we have identified several elements we think should form the basis of the review.



5. The CDMs contribution to delivery of Private Finance with a view to making recommendations as to how this might be enhanced: As the CDM is a market mechanism, the analysis should also try to provide insight on the performance of the CDM in financial terms like; volume of underlying climate change mitigation investments in developing countries leveraged by the CDM, transaction costs of achieving emission reductions through CDM compared to alternative instruments with same level of environmental integrity, and the potential contribution of the CDM to the mobilization of international climate finance.
6. The CDMs relationship to other mechanisms and policies with a view to maximizing its impact and ensuring the CDM complements and enhances other mechanisms which incentivize mitigation: In Durban, the COP defined a new market-based mechanism (NMBM) and the AWG-LCA will conduct a work programme to elaborate modalities and procedures for the mechanism. As the NMBM may assist developed countries to meet part of their mitigation targets or commitments under the Convention, it will be of particular importance that the policy dialogue considers how CDM, NMBM, and NAMAs might work together in the future, considering the potential for overlap.
7. The dialogue may also assess the general definition of additionality and how its determination can be improved and further objectivised.
8. Review of Governance and Operation of the Board – including a review of the process of appointment, terms of appointment and roles and responsibilities of Board Members, Panels and relationship of Board to Secretariat including:
  - 8.1. Measures to ensure independence, integrity and efficiency of the Board and its support structures
  - 8.2. Measures to ensure efficient and effective management and supervision of substructure (including secretariat and panels)
  - 8.3. Measures to ensure transparency on the provision and avoidance of conflict of interest in the provision of advice.
9. The potential for the process of standardization to enhance effectiveness and efficiency of the mechanism: The CDM Executive Board is tasked with further development and implementation of Standardized Baselines (including the standardized assessment of additionality). This work will focus on countries underrepresented in the CDM, yet the concept may have synergies with the work on NMBM in the AWG-LCA. The dialogue may want to assess how the concept of standardization can be extended with the view to improving environmental integrity and reducing transaction costs.
10. The potential for the CDM to be used for more than offsetting: It will be important for the dialogue to consider the broader context of the CDM, including the role of the mechanism in achieving the 2 degree objective and the related evolution from the use of mechanisms for the purpose of offsetting, to mechanisms that incorporate voluntarily, an element of own appropriate action.



11. The dialogue should also look at measures which ensure the continued and improved environmental integrity, additionality, efficiency, and contribution to sustainable development of the CDM, through improvements of the modalities and procedures, including through:
  - 11.1. Measures to ensure transparency and accountability: In addition, the EU encourages the dialogue to consider ways to strengthen the transparency and accountability of the CDM including measures to encourage civil society participation and to enhance public consultation in the CDM process.
  - 11.2. Measures to ensure baselines reflect changes in conditions: The dialogue may also want to consider technical concepts such as; ways to address the inclusion of existing CDM projects in project baselines and additionality assessment of new projects, and ways to strengthen baselines for new projects over time reflecting autonomous technological improvements without discouraging such future developments.
  - 11.3. Measures to address perverse incentives and other subsidy effects: The policy dialogue may also look at ways to avoid a discouragement of domestic climate mitigation policies of host countries in order to maintain revenue streams from CDM certain project categories. A critical assessment of the current E+/E- guidance may be illustrative in this context.
12. Review of accessibility, communication and training – including review of public communication, transparency, efficiency of CDM material and processes, and a review of the role of the Board in internal and external professional training exercises, including:
  - 12.1. Measures to ensure continuing improvement in competence of regulators, advisors and assessors – including treatment/provision of professional qualifications and learning
  - 12.2. Measures to ensure broad accessibility of CDM rules and processes, including provision for dissemination and access to CDM material and knowledge
  - 12.3. Measures to ensure public understanding of CDM, including provision for dissemination and access to CDM material and knowledge and relationships with key stakeholders.
13. Review of the role and responsibilities of DNAs: Finally, the policy dialogue may also want to assess the role and the incentives of the DNA with regard to the implementation of CDM projects in their country, and to elaborate the role of the DNA in case of trans-boundary project activities.