

Brussels, January 12, 2011

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CDM Policy Dialogue Input

In response to the request for input launched on the UNFCCC website to provide “public inputs on issues to be addressed in the dialogue” the Centre for European Policy Studies (CEPS), through its Carbon Market Forum (CMF), would like to provide input as outlined below, and expresses its strong interest to be part of the consultative process that will take place during 2012.

CEPS has been very active in the CDM debate through numerous Task Forces and Reports over the years and has played, and will increasingly play, an active role in the area of carbon market policy and CDM, both at the European, and global levels.

The CDM Policy Dialogue is a timely initiative given the fact that the world of carbon markets, and market approaches to climate change issues in general, is in a state of transition, defining critical issues for the future architecture and role of the carbon market. A CDM that will continue post-2012, as it is now clear that it will do, cannot move forward without taking into account the world we are moving into.

That definition will take place over the next few years both at the level of the UN negotiations as well as at what could be termed “demand level”, which is at the national or regional policy and regulatory levels.

In addition, much has been learned on how a globally regulated carbon market instrument should function. While some of the “learning” could have been avoided by tapping into what was known from other regulatory processes and bodies, it is nevertheless valuable information, that should be put to good use for the future of the CDM, of the new mechanisms, as well as the overall new architecture of the GHG market.

Since the issues under examination by the Panel have not been yet defined, as this is the purpose of this Call for Input”, in this submission we will provide our views and recommendations on the

- process that should be followed during the mandate of this Panel
- topics that should be covered during the Policy Dialogue

Process

Time has been short since the Policy Dialogue was launched in Durban, and the topics under consideration were not defined.

As such we suggest that following the consideration of the submissions received through this Call for Inputs, the Panel releases a short paper that outlines the topics that were selected for in-depth examination. At the same time, a request for submissions, substantive in nature, on those topics, should be issued.

It would be then extremely useful for the Panel to hold a series of workshops/hearings in different places around the world (Brussels, Washington, South America, Asia, Africa, etc.) where a small number of selected submissions from the respective area (2-3) could be presented by, and then discussed with, those that submitted them and with the stakeholders present.

We believe that such a process would generate valuable information for the Panel to consider in drafting its report.

Issues for the Panel

This is a high level panel that in our view should examine issues of policy, positioning and strategy that will ensure that the CDM can be relevant, and credible, for the future. The Panel should try not to engage on issues of detail related to the CDM process and its imperfections. As such, some of the issues that we feel would be important to examine would include

- Some have raised issues around the credibility of the CDM, especially as it relates to its real contribution climate change mitigation. This also extends further into its contribution to Sustainable Development. It would be important for the Panel to examine the causes that have led to this situation. Are there legitimate areas where there are questions of integrity for the CDM, that need to be examined and corrected? If there are real, substantive issues, what are they, and how can they be addressed? If they are not substantive and justifiable, what caused them to get this pre-eminence, and how can this be rectified.
- The CDM is regulated at the international level through the CDM EB, which is constituted by the CMP. This could be called the supply side of the market. At the same time, national and regional regulators, which determine “demand requirements” also have an important role to play. One of the main issues observed has been the lack of coordination between the two regulatory levels. This has led to much credibility damage to the CDM, and by extension to the UNFCCC process and the UN system at large as a global regulator, and has provided strong ammunition to those that claim that the CDM is a sham. The Panel should examine how to ensure better coordination of the different regulators around the world that have a say in the functioning and credibility of the CDM.
- The Kyoto market mechanisms, CDM and JI, have so far had a virtual monopoly in producing units good for compliance with UNFCCC obligations. This is about to change with the emergence of new mechanisms under the Convention, but which, according to the Durban AWG-KP papers, will be used for compliance with the KP. How will the governance of the existing KP mechanisms fit with that of the new ones under the UNFCCC? A “Framework” with standards for defining new mechanisms is being discussed during 2012, as a result of the mandate of the AWG LCA. Would CDM and JI have to also fit in the same framework and the same “standards”? Could they credibly

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be outside such a framework? How the governance of these different mechanisms, “new” and “old” interact and relate?

- The CDM, for reasons of Parties non-adherence or non-implementation of the KP, has not been used much by Annex 1 jurisdictions outside EU and Japan. It would very useful for the Panel to understand what, if anything, would make the CDM an accepted “instrument”, and its products acceptable, in other jurisdictions.
- We need to look at the future more than in the past. The CDM has been good, very good in some people’s eyes. However the world has moved on since Kyoto, and is not divided anymore as “neatly” as it used to be along the axis of revenue and emissions. As such it is now proposed that Parties could use different market instruments, maybe in different sectors of the same economy. One could say that there will be a menu, and CDM will be part of that menu. Mechanisms could be then used based on
 - national circumstances and interests
 - meeting certain requirements.

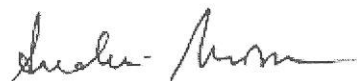
The governance of the whole “menu of mechanisms” will have to recognize that, just as it currently recognizes the two JI tracks.

It is now becoming clear that many of the “users” of CERs only see CDM as being legitimate in certain jurisdictions and/or sectors of the economy. Should we simply ignore that at the level of the UNFCCC regulation, or should this reality be recognized and attempt made at harmonization? What role should the CDM play, and under what circumstances?

- It must be recognized that the CDM has become, over the last years much more efficient. However, there are still efficiencies to be extracted out of CDM, especially in the areas of communication and governance. One area that would need to be examined is whether a deeper separation between the oversight and regulatory aspects of the work would be beneficial, with clearer delineations between the CMP oversight process, and the regulatory process of the EB. Would this allow for a more independent regulator under the authority of the CMP? Is that an issue, and if it is, how could it be addressed?

We hope that this input would prove useful and look forward to our continued participation in this important process

Yours truly,



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Head, CEPS Carbon Market Forum