Stephan Hoch
PhD Candidate
Department of Political Science
Albert-Ludwigs-Universität Freiburg, Germany
stephan.hoch@politik.uni-freiburg.de
stephan.hoch@gmail.com

16.1.2012

CDM Executive Board
UNFCCC Secretariat
Martin-Luther-King-Strasse 8
53153 Bonn, Germany

Response to the Call for Public Inputs on the "Policy Dialogue on the CDM"

Dear Honorable Members of the CDM Executive Board,

As a researcher and climate policy analyst who studies the CDM with the ambition to contribute to improving the mechanism as it evolves, I greatly appreciate this opportunity to contribute to the Policy Dialogue on the CDM. Hence, I would like to draw attention to the following issues:

1. Continue progress on regulatory reforms and strengthen implementation capacity in underrepresented countries

Pace and scope of recent CDM reforms have exceeded the expectations of many observers, in particular the efforts to enhance the mechanism's sustainable development contribution for those countries that continue to be underrepresented. While I would like to fully encourage everybody to continue this excellent work, in my view, two aspects deserve even greater attention:

a) Bridging the 'awareness gap' about new developments in the CDM in targeted host counties will likely require a substantial top-down effort. Hence, existing structures like the DNA Forum or the Nairobi Framework should be screened for their potential to deliver more effective knowledge transfer, and alternative approaches considered. Moreover, adequate resources should be mobilized to allow the CDM EB and UNFCCC Secretariat to support underrepresented countries in maximizing benefits from the CDM, e.g. through institutional capacity building on CDM standardization as agreed in Durban.

b) Finding ways to strengthen the capacity of 'underrepresented' host countries to shape ongoing CDM reforms according to (sub)regional and domestic circumstances. While I recognize the efforts of both the EB and Secretariat in this regard, as well as the responsibility of parties and their governments to take initiative themselves, direct involvement of underrepresented countries has so far been limited. This has contributed to the situation that CDM rules are not always adapted to the relevant context (see e.g. 2.). A first step could be an effort to consolidate the lessons from currently scattered success stories in underrepresented countries to facilitate replicating feasible approaches.

The effective implementation of an improved CDM by a wider group of countries has the potential not only to realize the leapfrogging opportunities in many low-income countries, but would at the same time greatly contribute to strengthening the legitimacy of the mechanism.

2. What is the future of 'neglected sectors' like forestry and agriculture?

A particular case in point for the issues raised in 1b) is made by role of the agriculture and forestry sectors in the CDM. Deforestation and climate-resilient agriculture are of particular importance in the economically least developed countries, in which there is a heavy reliance on traditional biomass energy and climate-vulnerable subsistence agriculture. The significance of forestry and agriculture to this group of countries is illustrated by the large share of A/R projects in Eastern Africa, although A/R has hardly played a significant role on a global scale. Moreover, some of these projects, including World Vision Ethiopia's Humbo CDM A/R-Project, or the Greenbelt Movement projects in Kenya are genuinely community-based, relying mainly on indigenous species and extensive social mobilization. These projects reveal a distinct contrast to the large-scale plantations for which the CDM has sometimes been criticized. However, progress in achieving registration and CER issuance has remained slow. Hence, much bolder regulatory improvements for those A/R projects with high sustainable development impacts are likely to be needed if this sector is to play a role as part of the CDM, e.g. through standardization and integration of innovations from voluntary carbon standards, in particular related to the permanence of CERs. If properly planned and implemented, projects such as those described above contribute far more to climate change adaptation than mitigation. Under current rules, only carbon sequestration is financially rewarded, although the livelihood dimensions of more climate resilient ecosystems are likely to be of much greater local importance. For such projects to achieve financial self-sufficiency as a precondition for the necessary scale, even more fundamental climate finance innovations will probably need to be explored. For instance, provided that certain conditions and safeguards are credibly met, up-front adaptation payments per hectare could be blended with performance-based carbon credits for mitigation from an improved A/R CDM. Similarly, it should be debated whether a new agriculture mechanism or funding stream should be created outside the CDM, or whether current methodologies can be improved effectively enough.

3. How can robust carbon prices provide long-term investment certainty?

Carbon prices have been subject to massive volatility not only in the last months but ever since the inception of emissions trading on a larger scale. This has partly been influenced by political uncertainty with regard to the future of global climate policy, but also by general economic conditions particularly in buyer countries. In order to drive investment towards sustainable development in non-Annex I parties, long term certainty about carbon prices needs to be radically improved. While the regulatory framework for <u>generating</u> carbon credits through the CDM has matured substantially, CER <u>trading</u> remains largely unregulated, unlike in other currency and commodity markets. Especially as the CDM has partly developed into a unilateral mechanism, project development risks are largely borne by developing country parties and organizations. In the most extreme case, this could mean that Annex I inaction punishes non-Annex I forerunners who have invested sometimes large sums in CDM projects, only to find carbon prices tumble down to historic lows because of lack of demand. Moreover, carbon credit price volatility also raises serious challenges for any credible demonstration that underlying projects depend on CER revenue for their financial viability.

While the EB may currently not be mandated to undertake regulatory interventions with regard to price finding, a broader policy dialogue is a good opportunity to debate how this challenge good be solved, and which role bodies like the CDM EB, the Green Climate Fund or new institutions can possibly play.

4. Long-term vision of CDM and alternative instruments

Twenty years after the UNFCCC has been crafted, non-Annex I country GHG emissions are sometimes larger than those of many Annex-I countries. Even more remarkably, the accumulated non-Annex I country emission reductions ambitions as expressed in submitted NAMAs, which are of course contingent on uncertain international support, have exceeded Annex I party mitigation ambitions. In sum, however, global emissions are still on an upward trend, and it is far from clear, when and how a peak-emissions scenario can be reached.

This situation necessitates to move beyond incentives for mitigation in developing countries mainly from offset credits, as offered by the CDM. In order to achieve net atmospheric benefits, it should be an imperative to debate where a CDM-like intervention makes sense, or where non-offset approaches may be feasible (electricity feed-in tarrifs, energy efficieny, reforestation, ...). In the absence of progress on new mechanisms, however, the CDM can be expected to remain a key instrument, while new approaches continue to emerge. Hence, a debate on how the CDM may achieve synergies with instruments like the Climate Investment Funds or the Green Climate Fund, and in particular unilateral and supported (=non-offset-credited) Nationally Appropriate Mitigation Actions, is needed. A critical aspect of such a debate is to be conscious of the need to avoid path dependency in the use of offset credits in order to drive down global emissions.

I hope these proposals can contribute to the ongoing CDM reform debate and look forward to further opportunities for greater engagement with the Secretariat and EB members on these issues.

Sincerely,

Stephan Hoch

(Stephan Hoch)