

11. Establish mechanisms for appeals and grievances

- Implement appeals mechanism for registration and issuance decisions. (CMP)
 - Both positive and negative rulings should be appealable.
 - Limit grounds for appeal to issues related to CDM modalities and procedures.
 - Disallow frivolous or vexatious appeals, with clear admissibility criteria.
 - Appellate body to be independent from EB and appointed by the CMP.
- Establish grievance mechanism for local stakeholders to address environmental and social concerns and resolve issues emerging after registration of a project (Host countries)
 - Established at the national level, but supported by existing CDM institutions if requested by a host country
 - Don't impede ongoing project operations



12. Promote regulatory certainty and streamlining

- Designate a champion among EB members to identify and propose **streamlining measures**. (EB, Secretariat)
- Digitize and automate workflows in order to facilitate transparency and consistency. (Secretariat)
- Increase the use of standardized approaches and elements in validation and verification procedures. (EB, Secretariat)
- Strengthen training and communication with DOEs in order to ensure a common understanding of rules and expectations of validation and verification results. (EB, Secretariat)
 - Parallel training for project developers should also be provided.
- Revise rules and procedures at pre-defined points to build confidence and guarantee consistency in application and interpretation of current rules. (EB, Secretariat)



Conclusion

- Carbon markets are profoundly weak, due to mitigation pledges that fall far short of what is needed.
- The global community is on the brink of losing the assistance which carbon markets and the CDM can provide.
- Well regulated carbon markets, including the CDM, have an important contribution to make in the global mitigation effort.
- Action to halt the loss of a depth of knowledge and capacity which has taken several years to build is urgent.
- It is imperative that mitigation ambition be stepped up in order to restore demand in carbon markets.
- Once this happens, market mechanisms can be expected to play an increasing role over time.





CDM Policy Dialogue

Climate Change, Carbon Markets and the CDM: A Call to Action

**Report of the High-Level Panel on
the CDM Policy Dialogue**

September 2012

High Level Panel's mandate

- Objective - to make recommendations on how best to position the CDM to respond to future challenges and opportunities and how to ensure the effectiveness of the CDM in contributing to future global climate action
- Panel undertook an independent, inclusive and transparent process, taking a bird's eye view of the system and its challenges



Informing the report

- Guided by responses to EB's initial call for inputs, **research programme** addressed 22 questions across three main areas:
 - **Impact**
 - **Governance and operations**
 - **Future context**
- Extensive **stakeholder consultation** programme,
 - Dozens of formal and informal meetings held in **every region** around the world
 - Governments, intergovernmental organizations, and NGOs, including business associations, environmental groups, and project developers consulted
- Findings accessible at: www.cdmpolicydialogue.org



Framing the report

- Importance of carbon markets
- CDM over the past decade:
 - 1 billion tons of GHG emissions mitigated in developed nations
 - US\$3.6 billion in savings for developed countries
 - US\$215 billion in investments in developing countries
- Unprecedented triple threat: 1. Earth's climate system is on a precipice 2. International climate action falls short of what is needed 3. Global carbon markets are collapsing

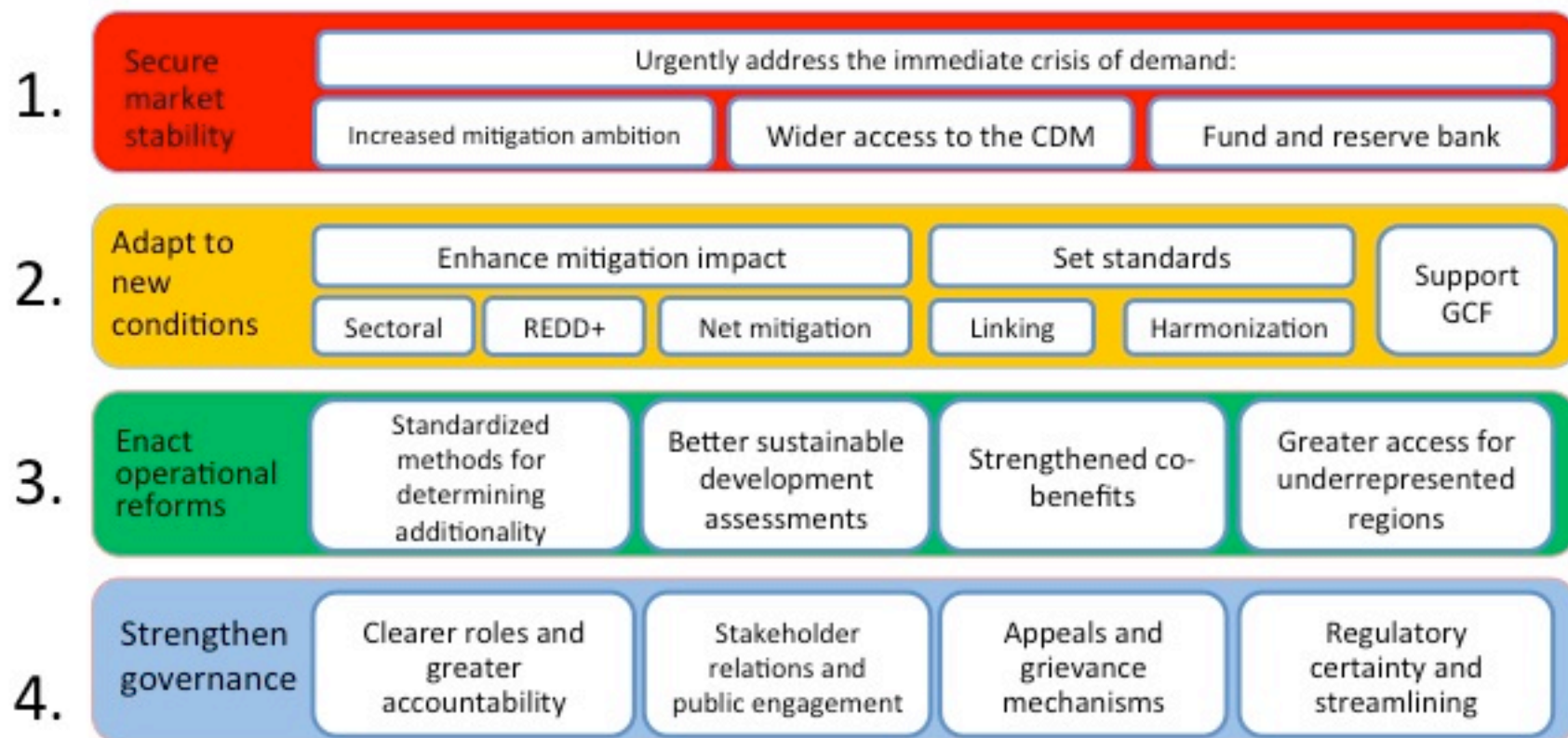


Average CER price and cumulative number of CERS issued



Summary of recommendations

The Panel has made 51 recommendations across 12 areas to address the crisis in international carbon markets and to make the CDM fit for the future



1. Urgently address the immediate crisis of demand

- **Increase mitigation ambition** by strengthening national pledges and adopting corresponding domestic policies and measures. (National governments)
- Ensure access to CDM as a tool to help national governments to achieve their mitigation targets in a cost-effective manner. (National governments, EB)
- **Investigate new fund** to purchase and cancel part of current **overhang of CERs**. Use portion of the financial reserves of the CDM to kick-start operations of this Fund. (National governments, CMP, Green Climate Fund Board, EB)
- Consider establishment of “**reserve bank**” for CERs, with the aim of **stabilizing the market**. (CMP, EB)
- Pending the restoration of realistic pricing in CER markets, take care in expanding supply of CERs. (EB)



2. Develop new approaches to enhance mitigation impact

- Develop and **test sectoral approaches** within CDM, while maintaining availability of current project-based approach. (EB)
- Develop and test project-based and national/sub-national REDD+ programs, with appropriate controls to mitigate risks. (CMP, EB)
- **Develop and test approaches to achieve net mitigation impact** on both buyer and seller sides, avoiding disincentives for project developers and investors. (CMP, EB)
- **Stop registering new projects involving gases with low marginal costs of abatement**, which are ready to graduate from the CDM. Regulation may be needed to phase out these industrial gases. (CMP, EB)



3. Set robust standards to enable linking and harmonization

- Identify and develop standards that anticipate the needs of emerging market-based mechanisms. (EB, Secretariat)
- Collaborate with other market-based mechanisms around common functions such as standard-setting, accreditation, registration and issuance, capacity-building, and communication. (EB, Secretariat)
- Ensure comparability among standards across market-based mechanisms to minimize regulatory inconsistency, safeguard environmental integrity, and promote fungibility. (National governments)
- Establish a common registry function that tracks mitigation outcomes effectively and avoids double counting. (National governments, Secretariat)
- Improve regulatory engagement and outreach efforts to regulators of emissions trading systems. (EB, Secretariat)



4. Support the rapid implementation of the Green Climate Fund

- Promote use of CDM standards and methodologies in accounting for payments for verified results. (Green Climate Fund Board, EB)
- Apply the standards and methodologies developed under the CDM as a way to facilitate the implementation of mitigation activities supported by GCF. (Green Climate Fund Board, EB)



5. Implement standardized methods for assessing additionality

- Increase use of **standardized approaches** e.g. performance benchmarks in assessment of additionality. (EB, Secretariat)
 - Set conservatively to ensure additionality across a population of similar projects.
 - Account for technology- and context-specific factors.
 - Move away from more subjective and unverifiable financial additionality tests.
- Use **positive lists** to simplify additionality assessments for project types and contexts where there is low risk of non-additionality. (EB, Secretariat)
- Ensure that focus of **incentives constantly shifts to next generation of technologies**, in order to drive technological change. (EB, Secretariat)
 - Standardized baselines and parameters must be periodically reviewed according to the pace of technological progress.



6. Ensure that CDM projects help to achieve sustainable development

- **Assess SD contribution** of projects in the **project approval process** in a transparent, inclusive, and objective manner. (Host countries, EB)
- **Report, monitor, and verify** sustainable development impacts in a more systematic and rigorous manner throughout the lifetime of a CDM project. (Host countries, EB, project participants)
- Enhance safeguards against negative sustainable development impacts. (Host countries)
- **Enable host country to withdraw approval** of CDM project if, following an objective and transparent assessment process, the project is proven to have a harmful impact on sustainable development. (Host countries, EB)
- Provide **increased support, including capacity-building and best-practice examples, to host countries** that request it in order to perform the above functions. (EB, Secretariat)



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

- 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. (EB, Secretariat)
- Explore opportunities for cooperation with other international institutions and financial mechanisms in support of co-benefits generated by CDM projects. (EB, Secretariat)
- 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, EB)
- Stimulate collaborative technology development and local technology innovation. (EB)



8. Encourage greater access to the CDM by underrepresented regions

- **Prioritize** development of projects in developing, **non-high-income countries with very few projects** that have issued CERs. (CMP, EB, Secretariat)
- Enhance accounting of suppressed demand for energy services to increase participation in low-income countries with low levels of emissions. (EB)
- Accelerate development of standardized parameters and simplified procedures for household-level services and public services. (EB, Secretariat)
- Introduce **new grant scheme and expand existing loan scheme** to further reduce financial barriers to the implementation of CDM projects. (EB)
- **Mobilize finance to build capacity for hosting projects in underrepresented countries.** (International, regional, and national development banks)
- Share experiences and best practices, particularly within regions. (DNAs)



9. Rethink existing governance arrangements

- Reorient EB Board towards policy and strategy issues, while delegating project specific and technical decision-making to the Secretariat. (EB, Secretariat)
- Adopt **accountability framework** between EB and Secretariat, with service level agreement and performance indicators. (EB, Secretariat)
- Develop and implement robust codes of conduct for all members of the CDM governance structure, including EB and Secretariat - include means for objectively assessing and addressing conflicts of interest. (EB, Secretariat)
- **Revise criteria for composition of EB** to include professional knowledge and experience. (National governments)
- Follow **transparent process of selecting candidates with public call for nominations**, and selection committee which proposes candidates to CMP.
- Limit membership of EB to two three-year terms. (National governments)
- Phase the expiry date of terms to create mix of experienced and new members.
- Over longer term, evolve towards more decentralized system of operation, with issuance of credits undertaken by certified national and regional authorities in line with EB guidelines. (National governments, CMP)



10. Improve stakeholder interactions and public engagement

- **Improve accessibility and respond to stakeholders** properly and professionally, promptly answering complaints and queries. (EB, Secretariat)
- Designate contact person or “account manager” within Secretariat for stakeholders in respect of individual cases, with ability to provide technical clarifications and guidance. (Secretariat)
- Adopt strategic communications policy, including processes for responding to criticism and for enabling dissemination of accurate and accessible information to a broad audience. (EB, Secretariat)
- Establish **guidelines for adequate local consultation procedures** to ensure local community stakeholders are properly notified and consulted on project activities. (EB, Secretariat)

