



Meeting Notes - CEPS Carbon Market Forum

Task Force: CDM High Level Panel on CDM Policy dialogue

September 14, 2012

Brussels, Belgium

This meeting of the Task Force reviewed and discussed the Report put out by the High Level Panel (HLP) on CDM Policy Dialogue on September 11, 2012, and the input that the Carbon Market Forum (CMF) Task Force (TF) on CDM could make in response. The meeting was attended by representatives from the High Level Panel (HLP), business, civil society and government.

Representatives of the HLP made a presentation on the contents of the Report and emphasized a number of points. This was accompanied by presentations from some of the stakeholders present and was followed by a roundtable discussion moderated by the Chair. Following the formal presentation of the Report, and in the course of the discussion, the following points were made:

- While the report addressed twelve main areas, they were grouped, for the purpose of discussions, as follows:
 - Role of the CDM in future architecture
 - Evolution of CDM
 - Additionality improvements
 - Governance
- The CDM has been improved in many ways, but reforms have not been consistently applied. A lot of the criticism is out-dated, but continues to be in the market.
- The CDM has to move from a pure offset mechanism to net emissions reductions.
- As the New Market Mechanism (NMM) has to go through a learning curve, the lessons learned, experience and infrastructure of CDM should not be abandoned. A question that was asked was very illustrative: “What can NMM do that an expanded and improved CDM could not do?”
- The CDM EB, and the CDM itself to some degree, has created a culture that is not always constructive and efficient, but there is a desire for deep reform within parts of the EB. This report, and its uptake, could play the role of encouraging such reform.

- The Report will be forwarded to the COP and Parties via the CDM EB Annual Report to the COP, as well as directly by the HLP to Parties. It was felt that given the scheduled review of the CDM M&P due to start next year, the HLP may be called to play an important role in that process. It is unlikely that the Report will be considered or discussed to any significant extent at the Doha COP.
- CDM was seen as playing an important role as a linking mechanism between markets in different jurisdictions, and even more important, as a Standard Setter for the new and fragmented world that is emerging post Kyoto.
- Given the proposals in the report about a Carbon Bank or some other types of demand creation, it was remarked that the GCF could play an important role by using the existing CDM standards and production facilities to meet its own demand for mitigation actions, instead of being pressured to create totally new facilities to identify reduction opportunities with strong environmental credibility.
- Some stakeholders questioned the conclusions of the report regarding the additionality of current projects, and stressed that they continue to have strong doubts about the credibility of many projects. In addition, there were questions about the standards that would be employed in selecting credits to be acquired by the GCF, or any other type of Fund, should such a solution be considered. This is especially relevant in view of the difficulties in reaching consensus in the UNFCCC process in restricting the issuance of credits from certain types of projects, exemplified by the recent CDM EB decisions.
- The idea of creating demand for CDM products via the GCF, or Funds in general, has apparently already triggered interest from a few countries to further explore it.
- It was emphasized that all conclusions in the report, including on additionality, were based on the input received, and the extensive research commissioned by the HLP, which has not yet been made public.
- It was felt that Carbon Bank model is something that deserves further exploration. There are no details on how this would be implemented, but many challenges can be anticipated in implementing such a model, and a long lead time. It was seen as a way to ensure that the market would not crash, as it is currently doing, and not as a permanent intervention tool to modulate prices.

The second part of the meeting focused on a potential response from the CEPS CMF. The participants made the following points

- It would be very useful for this TF to provide input.
- The response has to be balanced and representative of the input received during discussions. Also, it cannot be too long (2 pages) as policy makers do not read long policy papers and there will be a lot of reactions to this Report.

- It would be useful to have a reaction that may anticipate a European point of view to the Report.
- Most stakeholders wanted to emphasize, in any reaction from CEPS, the need to create demand. Some felt that that the report should have taken a higher level in making recommendations and not go into so much detail - and this should be emphasized. The Report should have made recommendations that the COP can then take on Board and direct appropriate bodies to implement.
- The demand/supply issue could be addressed in a cover statement that would emphasize that nothing will happen without scarcity to trigger activity and demand for CDM output, and that a number of solutions were provided in the Report, including the Fund and Carbon Bank proposals.
- It was also important to refer to the need to allow access to CDM products to all Parties and not limit it to KP2 signatories. This was seen as an understandable reaction, at first blush, but one that would run against the interest of the good functioning of the mechanism and the aims of the Convention (and the CDM).
- Different views were also expressed with respect to the development and incorporation of more centralized Sustainable Development criteria by Host countries. There were concerns that this would infringe on the fundamental view that SD is the prerogative of a national government and that breaking that line would reverberate into many other areas. Transparency was seen as a solution to ensure that SD becomes a more powerful component in CDM in a practical way.
- In the same direction, there was general support for allowing LoAs to be withdrawn. That view was temperate with the realization that such a provision should be accomplished without introducing a significant level of uncertainty in the market.
- The Rapporteur will produce a draft report to be discussed with the TF via teleconference prior to it being finalized.

AC Marcu, CEPS, Rapporteur

These Meeting Notes represent the discussions in the meeting as captured by the Rapporteurs, and do not attempt to portray any consensus among the members of the Task Force.