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Federal Department of the Environment,
Transport, Energy and Communications DETEC

Federal Office for the Environment FOEN
Climate Division

Review of the Clean Development Mechanism

Centre for European Policy Studies, Carbon Market Forum Task Force

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Purpose of the review

- Enhance the **environmental integrity** of the CDM
- Improve its **governance**
- Foster **synergies** with other market mechanisms
- Integrate **recent developments** of the climate regime



Process for the review

- Take into account the **experience** and **lessons learnt** so far with the CDM, JI and national climate policies
- **Incremental approach** to the revision of the CDM modalities and procedures:
 - Increase **consistency** between market mechanisms, both under KP and Convention
 - **Synergies** and **harmonization** of rules and structures across mechanisms
 - Efforts to **streamline** and **simplify** rules and procedures



Demand/supply, access to the CDM (1)

- Increase demand for CERs by allowing **full access** to the CDM to all countries, i.e. incl.:
 - to **developed countries** without commitments in CP2
 - to **developing countries** for meeting their NAMAs, if they wish to use CERs (e.g. in an ETS)
- For the above-mentioned countries, need for:
 - adequate **accounting** rules to ensure consistency (e.g. landing point vs. carbon budget)
 - procedures for **surrendering and cancelling** CERs to avoid double-counting



Demand/supply, access to the CDM (2)

- Extend **access** to the CDM, because there is **broad confidence** in the contribution of the CDM to global mitigation action since the CDM is regulated by a **set of common rules**
- **Increase mitigation action** by all Parties under the Convention, in the context of the ambition process under the **Durban Platform (ADP)**
- Reduce supply from some CDM project types whose **additionality** and environmental integrity is highly questionable



Synergies with other mechanisms (1)

Competences and tools of the CDM to be used for other mechanisms (JI, FVA, NMM, finance):

- **Expertise** of project developers, DOEs, DNAs, EB, Panels, Secretariat
- Large corpus of **methodologies, standards, tools**
- Infrastructure, **ITL**
- Accreditation procedure, appeal process
- **Net emission reductions**
- Sectoral approaches (experience with PoAs, standardization)



Synergies with other mechanisms (2)

Advantages:

- **Efficient** use of resources
- Increased **environmental integrity**
- **Consistency** across mechanisms
- Comparability among activities, **fungibility** of carbon markets
- **Avoid double-counting**
 - between mechanisms and among countries
 - between mitigation purposes and climate finance (ex. cancelling CERs as contribution to climate finance)



Standards, environmental integrity (1)

- Withdrawal or suspension of LoAs** when projects violate national regulations / international treaties or are in contradiction to sustainable development
- **Safeguards** to ensure that there is **certainty** for investment by the private sector:
 - Clear and transparent process
 - Conditions to be defined by a DNA in the LoAs or in its national procedures for issuing LoAs
 - **Objectives:**
 - Credibility and environmental integrity of the CDM
 - Encourage project participants to better take care of sustainable development and interests of local communities



Standards, environmental integrity (2)

Improvement of the assessment of **additionality**:

- **Standardized** approaches such as performance benchmarks
- **Conservative** approach when setting reference levels in order to take into account uncertainties
- Inclusion of **evolving conditions** (e.g. context related to a country, use of technologies) in the baselines, which must be regularly reviewed and updated



Standards, environmental integrity (3)

- Reassessment of **mitigation impact of some project types** with perverse incentives or leakage
 - **Alternative instruments** to market-based instruments (non-market approach)
 - Example for HFC-23 installations: finance measures for phasing down HFCs in a cost-effective way in order to maximize both protection of the ozone layer and climate change mitigation
- Better MRV of **sustainable development impacts**
 - Promotion of the development of projects with high co-benefits (e.g. simplified requirements)



Governance (1)

Governance of the EB

- **Less politicized**
- **Independent**, no conflict of interests: no negotiating mandate under the UNFCCC
- Political issues should be deferred by EB to CMP
- Composition: include representatives of the **private sector and NGOs** (without extending the size of EB)
- **Professionalization**: Chair/Vice-Chair elected on a full-time basis, other members at least half-time
- Transparent process for selecting candidates
- Qualifications and relevant background



Governance (2)

Appeal process against decisions of the EB

- Strengthen **consistency** and transparency of the decision-making process
- Same appeal process for CDM and JI
- Appropriate **safeguards** and procedures, so that the appeal process is not inefficiently overburdened and does not block the implementation of projects