United Nations

TD/B/C.I/EM.1/3

United Nations Conference on Trade and Development

Distr.: General
5 May 2009

Original: English

Trade and Development Board
Trade and Development Commission
Expert Meeting on Trade and Climate Change: Trade and Investment Opportunities and Challenges under the Clean Development Mechanism (CDM)
Geneva, 27–29 April 2009

Report of the Expert Meeting on Trade and Climate Change: Trade and Investment Opportunities and Challenges under the Clean Development Mechanism (CDM)

Held at the Palais des Nations, Geneva, from 27 to 29 April 2009

Contents

Introduction

1. The Trade and Development Board, at its fifty-fifth session (Geneva, 15–26 September 2008) decided to hold an Expert Meeting on Trade and Climate Change: Trade and Investment Opportunities and Challenges under the Clean Development Mechanism (CDM). The terms of reference for the meeting are presented in document TD/B/55/9.

I. Chair's summary

2. The meeting included five substantive sessions, animated by 21 panellists representing national governments, academia, research institutions, international organizations and the private sector, including representatives of emission traders and CDM project developers. Papers were also submitted by a number of experts, and a background note was prepared by the UNCTAD secretariat (all relevant documents, presentations and audio files are available on UNCTAD's website). The Chair moderated the sessions, helped frame discussions and structured the debate. All panels were followed by interactive debates among the participants.

3. It is not the intent of this report to provide summaries of statements made by panellists and participants. For detailed assessments of each talk, please refer to the audios and presentations available for download on the UNCTAD website. The main goal of this report is to list the main discussions raised during the meeting and the set of recommendations for UNCTAD's action. For that reason, hereby we briefly mention some of the speakers' points that were further discussed with the experts from the floor.

A. Summary of proceedings

4. At the opening session, Mr. Habib Ouane – speaking on behalf of Dr. Supachai Panitchpakdi, Secretary-General of UNCTAD – highlighted many aspects of the current climate change negotiations, concluding that UNCTAD, under the strong mandate contained in paragraph 100 of the Accra Accord, was committed to deepening the understanding of the CDM and identifying how its contribution to sustainable development in developing countries might be enhanced and optimized under a post-2012 climate regime.

5. In his keynote address, the Deputy Executive Secretary of the United Nations Framework Convention on Climate Change (UNFCCC), Mr. Richard Kinley, presented an overview of the status of current climate change negotiations under UNFCCC. He said that consensus was being sought among the negotiating parties in the following four areas: (a) the level of ambition of emission reductions by developed countries beyond 2012; (b) the nature of mitigation strategies for developing countries; (c) the financial and technological support for mitigation and adaptation actions; and (d) the institutional framework to deliver mitigation and adaptation. Negotiations showed that parties wanted the CDM to continue, and they wanted it improved. Besides its achievements (such as the capacity to reduce emission reductions, stimulate private sector involvement and technology transfer and identify cost-effective options, among others), CDM presented some challenges. Several improvements for immediate implementation by the CDM Executive Board were raised, such as (a) the establishment of timelines; (b) the speed-up of the process for project approval; (c) broadening baseline methodologies; (d) improvement and guidance on the process of additionality; (e) enhancement and speed-up of the process for the formulation and registration of CDM programme of activities (PoA); and (f) promotion of more equitable distribution of CDM projects through more capacity-building, among others. The final message raised by Mr. Kinley was that UNCTAD had an important and consequential

role to play with respect to CDM by promoting investment and setting countries on a clean path.

6. The Permanent Representative of Brazil to the World Trade Organization (WTO) and UNCTAD, Mr. Roberto Carvalho de Azevedo, emphasized the important of UNCTAD working closely with UNFCCC with respect to the CDM mechanism. The principle of common but differentiated responsibilities and national capabilities was stressed, and, in Copenhagen, he said Brazil hoped that substantive reduction targets to developed countries would be achieved, as well as a framework for finance and technology transfer for developing countries. Reduced rates of growth in emissions by developing countries could be achieved through nationally appropriate mitigation actions, preferably with the support of developed countries under their financial commitments under the UNFCCC.[1]

7. The permanent Representative of Switzerland to WTO, Mr. Luzius Wasescha, brought three messages from the Federal Counsellor Minister, Ms. Doris Leuthard: (a) Switzerland had deep interest in progress in the area of climate change; (b) the private sector had to be involved; and (c) UNCTAD had a role to play in demonstrating the opportunities of CDM projects for developing countries. He mentioned many of the capacity-building actions his country supported. He stressed that – even though developing countries did not have targets in the period 2008–2012 – Switzerland expected meaningful participation in the post-2012 regime from India, China, Brazil and other more advanced developing countries.

8. The Permanent Representative of India to the United Nations in Geneva, Mr. Gopinathan Achamkulangare, explained how a CDM project was processed in India and the current characteristics of projects. He stressed that CDM projects were expected to achieve sustainable goals and that products with higher sustainability potential should be prioritized. As possible roles for UNCTAD, he mentioned the creation of databases and the monitoring of statistical data on CDM. The need for increased technology transfer was also emphasized.

9. The initial statements were followed by an interactive debate, during which many participants raised the issue of unequal distribution of CDM projects across developing countries (even if one accounted for population size and gross domestic product) and possible solutions to the current situation. Frequently mentioned solutions were the enhancement of programmatic CDM, increased capacity-building for designated national authorities (DNAs) in least developed countries, improvements on the general investment environment in these countries and the inclusion in the CDM of project types that were of interest to LDCs, such as reduced emissions from deforestation and degradation (REDD). Other concerns raised related to the distribution of CDM projects across sectors and the effective technology transfer under CDM investment flows. Many participants emphasized the role of UNCTAD and other international organizations in helping develop the necessary institutional and legal framework in developing countries, in a continued effort first launched by the Nairobi Framework.

1. The Clean Development Mechanism: current state of play and proposed reforms

10. The panellists were (a) Mr. Jorgen Fenhann, Senior Energy Scientist, United Nations Environment Programme (UNEP) Risoe Centre; (b) Mr. Adriano Santhiago de Oliveira, member of the General Coordinaton on Global Climate Change, Ministry of Science and Technology, Brazil; and (c) Ms. Graciela Chichilnisky, United Nations Educational, Scientific and Cultural Organization (UNESCO) Professor and Director, Columbia Consortium for Risk Management.

[1] During the expert meeting, the DNA of Brazil presented its 2009 CDM Guide for Investors. It was meant to assist project developers in any host developing country and drew on Brazil's long experience in the CDM market. It was available in English, Spanish and Portuguese.

11. The session helped set the scene by presenting the current state of play of CDM projects and some of the proposed reforms. Mr. Fenhann explained the scope of CDM, the registration process through which a project must navigate and how the market was evaluating the demand for certified emissions reduction units (CERs). Numbers indicated a tendency of de-concentration of projects and an improvement of the situation in Africa, which jumped from 50 to 100 projects in one year. Hydroelectricity, wind energy and biomass energy were the most popular projects so far, while relatively little was happening in terms of energy efficiency projects for households and clean transportation options. That could be addressed with the use of the CDM PoA, whose benefits were again stressed, despite its challenges, which included making clearer the liability requirements for Departments of Energy and allowing more than one methodology to be used in a given PoA.

12. Mr. Oliveira emphasized the Brazilian view that CDM was a success and explained the composition of the inter-ministerial commission responsible for approving CDM projects internally. Most projects were developed unilaterally, which indicated that technology transfer might not be taking place as desired. The process of approval in Brazil could be considered as being very efficient given that the relation between registered projects and projects in validation was higher (45 per cent) than global average (35 per cent). In terms of the ongoing climate change negotiations, the Brazilian perspective is that the Ad Hoc Working Group under the Kyoto Protocol had a clear mandate and that amendment proposals not linked to article 3.9 of Kyoto Protocol fell outside of that mandate. In addition, some proposals could be dealt with under the Conference of the Parties serving as Meeting of the Parties to the Kyoto Protocol. He said that proposals should preserve the environmental integrity, economic soundness and general principles prescribed in the Kyoto Protocol.

13. Ms. Chichilnisky mentioned the perverse incentive behind the CDM mechanism, since large emitters had more access to projects to reduce emissions, and therefore nations with few emissions were left behind. A concrete proposal with two building blocks was presented, suggesting the inclusion in the CDM of those projects that actually removed carbon from the atmosphere (“carbon negative projects”, which would use technologies currently under development) and the creation of a derivative market based on the existing carbon credit market.

14. During the interactive debate that followed, many participants asked for clarifications about the technologies that might be in carbon negative projects, and others expressed the view that developing countries would like to encourage projects that generated high sustainable development goals rather than projects with high technology content that could either be too costly or result in limited sustainability gains.

2. The carbon market: current state, financial risks, perspectives and realistic options for post-2012

15. The panellists were (a) Ms. Ulrika Raab, Senior Advisor, Swedish Energy Agency and former member of the CDM Executive Board; (b) Mr. Jorge Vitorino, Permanent Delegation of the European Commission to the International Organizations in Geneva; (c) Mr. Miles Austin, Ecosecurities; (d) Mr. David Lunsford, International Emissions Trading Association; and (e) Ms. Natalia Gorina, Essent Trading.

16. The panel focused on the current and future demand for carbon credits by developed countries and their perspective for the CDM in a post-2012 regime. The panel was represented by policymakers from developed countries, which ultimately defined the demand for carbon credits, and the private sector, such as CDM project developers and carbon buyers and traders. Because of the ongoing nature of climate change negotiations, the post-2012 scenario for CDM was still unclear and panellists presented varied views about the importance of the CDM mechanism in the future climate change regime.

17. Ms. Raab presented the Swedish perspective on CDM and its expectation that in the post-2012 period CDM would continue to be an important tool for achieving sustainable development and emission reductions. Nevertheless, reforms were needed to make the CDM registration process more transparent and easier for users. The importance of the private sector for the smooth functioning of the mechanism and the necessity to build confidence on the greenhouse gas markets was emphasized. The Swedish representative stressed that there was no time to start reform of the CDM from scratch, supporting the view that the scaling up of CDM should be done within the current framework for CDM. The possibility of including sectoral CDMs in the future regime was also raised, as well as the concept of differentiation among developing countries.

18. The European Union (EU) representative, Mr. Jorge Vitorino, stressed that, even though the EU was committed to the consolidation of a robust international carbon market, a clear sign that the CDM would continue after 2012 depended on the final deal in Copenhagen. Only a deal including the creation of a United States cap and trade system would give certainty for the continuation of the CDM post-2012. The need for concrete emission reductions, increased participation of developing countries, enhanced monitoring capacity by developing countries and the differentiation among developing countries was highlighted. The CDM needed to be reformed, with short- and long-term proposals. The use of the no-use credited sectoral approach was also raised as a way to upscale the CDM mechanism. Finally, it was felt that the CDM should be used as a tool to facilitate the transition to a global cap and trade system where the EU and potential United States systems should be compatible to avoid fragmented markets.

19. The key focus of Mr. Austin's presentation was that CDM relied on demand and that, even though the scaling up of the mechanism was desired, at the moment the system was running the risk of becoming oversupplied. Therefore, it remained to be seen where a strong push in the demand for CERs would come from. The EU's emissions trading system had been a major driver for CDM projects, but in his opinion the demand post-2012 for CERs in the EU-ETS would be significantly reduced from past and current levels, due to quantitative limits and limits on acceptability by source and project type. He highlighted that policymakers should clarify whether the private sector was indeed wanted and that a solid commitment to increase investors' confidence and bring back the capital was needed.

20. Mr. Lunsford reinforced Mr. Austin's view and highlighted that, whilst the EU had been the driver of the carbon market, there were plans to damp down the use of new CDM projects in phase 3. The EU's position was that the larger developing countries should have emission reduction targets through sectoral mechanisms, and should be ineligible for CDM post-2012. It was stressed that it was important to move faster and further than the CDM had so far achieved; on the other hand, those ideas should consider how the private sector would be willing to invest, as it was far from clear where the demand would come from.

21. Ms. Gorina presented the point of a view of an electricity company operating in Europe which was covered by the EU ETS and which fulfilled part of its reduction commitment shortfall with the purchase of CERs. As such, they sourced CDM projects around the world, and for that they either went directly to the primary or secondary markets, where risks were lower and prices higher. Given the ongoing uncertainty about the future regulatory framework for CDM, Essent protected itself by staying away from HFC projects and CERs from China, Brazil, India and Mexico, as those countries could not be acceptable sources of CERs for import into the third phase of the EU–ETS, or the United States regime, for that matter. They bought CERs mostly from renewable energy and energy efficiency projects and preferred CDM projects with gold standard certificates.

22. In the discussions that followed that panel, some participants asked for more clarifications about the concept of differentiation amongst developing countries and others contested it, adding that the only existing differentiation was between developing countries (non-annex I) and developed countries (annex I), and that developing countries should implement mitigation actions under UNFCCC according to their specific capabilities. The

inclusion of a sectoral approach was hotly debated, with many developing countries' representatives expressing concerns about its effect on foreign trade and the competitiveness of developing country exports, as sectoral approaches could result in the political and arbitrary establishment of baseline for a whole economic segment worldwide. One participant noted that, if the scale-up of CDM was desired, the commitments of developed countries should be raised and enhanced so as to maintain the demand for CDM projects and emission reductions in developing economies.

3. Developing country interests in climate change action and the implications for a post-2012 climate change regime

23. The panellists were (a) Mr. Aaron Cosbey, Associate and Senior Climate Change and Trade Advisor of the International Institute for Sustainable Development; (b) Mr. Mikko Halonen, Gaia Global; (c) Ms. Paula Pareja, University of Zurich; and (d) Mr. Alberto Magalang, Designated National Authority of the Philippines.

24. The session highlighted the interests of developing countries in terms of climate change action, and in terms of the CDM mechanism in particular.

25. Mr. Cosbey stressed that there were a number of ways by which developing countries could pursue the joint objectives of development and climate change mitigation, and that CDM might be a useful tool to achieve those. Given current uncertainties about the size and scope of CDM in the future regime, developing countries should act strategically to achieve both objectives and some of the options available were (a) avoiding and reversing deforestation; (b) clean energy production and use for developing countries; and (c) clean transportation options. In addition to the CDM market mechanism, developing nationally appropriated mitigation actions (NAMAs) was one possible approach to seek financial support for mitigation efforts under the three options proposed above. Mr. Cosbey believed that NAMAs were a more promising way to go as they could prove to be a less difficult route to navigate than CDM projects, and because of concerns about oversupply in the CDM market. For more details about his presentation, please refer to the UNCTAD publication UNCTAD/DITC/BCC/2009/2.

26. Mr. Halonen's presentation focused on potential ways forward to CDM enhancement and stressed existing bottlenecks, such as the need for funding for CDM projects. Suggested actions were (a) including additional project activities, e.g. other Land Use, Land-Use Change and Forestry (LULUCF), CCS and nuclear activities; and (b) expanding the CDM to sectoral and national policy approaches, among others. The key importance of building country mitigation and adaptation roadmaps and an enabling national policy environment as a way to build long-term mitigation scenarios was highlighted. For more details about his presentation, please refer to the UNCTAD publication UNCTAD/DITC/BCC/2009/3.

27. Ms. Castro presented the results of her study that investigated whether the low-hanging fruit issue was a real problem or not. Was CDM using up the cheapest emissions abatement options, and thus leaving developing countries only with the more expensive ones for their own compliance with future reduction targets/commitments? The study provided ideas for CDM reform, concluding that there was still much room to expand mitigation measures in non-annex I countries, and that CDM was capturing neither the cheapest abatement options, nor the most expensive ones. CDM PoA and sectoral approaches could be a solution for low-cost abatement options, while for the high-cost ones, there was need for improved access to financing, and research and development support for not-yet-mature technologies, among other options.

28. Mr. Malagang presented the basic policy of the Philippine's DNA and mentioned some of the issues it had confronted. He emphasized that more effort was needed to meet the objectives of the CDM: (a) it needed to ensure environmental integrity of project activities in terms of real greenhouse gas emission reductions; (b) it needed to encourage

demands for small-scale projects with high sustainable development benefits, rather than those with perverse incentives; and (c) current rules on some project activities were too restrictive, resulting in the registration of a small number of projects, among others. Other climate change options that should be taken into account were adaptation actions and development of new financing mechanisms for both mitigation and adaptation.

29. During the interactive debate that followed the panel, some developing countries' representatives emphasized again that their countries did not approve of the inclusion of a sectoral approach in the CDM, or as a replacement for the CDM. In a broader context, for annex I countries this was not a problem, but developing countries feared that a sectoral approach could become a technical barrier to trade and a "back door" approach to taking on hard targets. About the inclusion of REDD in CDM, some participants disagreed with the idea mentioning concerns with carbon permanence (i.e. how to guarantee that carbon would be stored in the long term and, hence, guarantee the soundness of CERs from CDM REDD projects). It was noted that current negotiations seemed to deal with deforestation outside the carbon market and the opportunity of developing NAMA programmes for developing countries should be a focus for the UNCTAD climate change programme.

4. CDM and developing-country experiences and expectations under the post-2012 regime

30. The panellists were (a) Mr. Fang Jin, Development Research Centre of the State Council (speaking on behalf of Mr. Yang Hongwei, Director, CDM Project Management Center, Energy Research Institute of NDRC, China); (b) Mr. Elmer Schialer (speaking on behalf of Ms. Julia Justo Soto, Executive Director of the National Environment Fund, Peru); and (c) Mr. Govinda Timilsina, World Bank. This panel was followed by interactive debate and interventions from the Designated National Authorities: (a) Mr. Raúl Garrido, Senior Expert from Ministry of Science, Technology and Environment, Cuba; (b) Mr. Cheikh Saadbouh Seck, Deputy-Director of Foreign Trade, Ministry of Trade, Senegal; and (c) Mr. João Lusevikueno, Director of Trade Policy, Ministry of Commerce, Angola.

31. In the session, the DNAs of developing countries highlighted some of the lessons learned and challenges they faced.

32. Mr. Fang explained China's CDM Project Approval Regulations and its progress over time, as well as the CDM administrative framework in the country. As a developing country party to the Kyoto Protocol, Mr. Fang noted that his country attached great importance to its obligations under the protocol and had been promoting proactively the development of CDM cooperation by establishing related institutions, promulgating the regulatory framework and building capacity at both the central and local levels. As recommended actions, the need to speed up procedures by departments of energy and the Executive Board were mentioned, to avoid long waiting for projects in the pipeline.

33. Mr. Schialer explained the CDM experience in Peru, mentioning the internal organization of its authority, processes, general framework and evolution of projects. Some of the lessons learned by the Peruvian authorities drew attention to the need to further build capacities at public institutions, regional and local governments; the signing of memorandums of understanding with several countries and international financial banks such as KFW and Deutsche Bank fostered closer relations among buyers of CERs with the project developers, among others. Some of the pending actions included developing new programmatic and sectoral CDM projects at the local national and regional level and spreading information and knowledge to small- and middle-sized businesses, among other groups.

34. Mr. Timilsina presented the results of a World Bank study that investigates the potential for low-carbon energy projects in sub-Saharan Africa. As such, potential emission reductions by project type (including jatropha-based biodiesel, agriculture residuals and others) and by sub-Saharan countries were presented. The total value of emission reduction

could reach \$97.8 billion at \$10/ per ton of CO_2 (t/CO_2). The key barriers to fulfilling this potential included financial barriers, infrastructure and market barriers, lack of skilled human resources, lack of awareness and information sharing, and regulatory barriers. The World Bank was taking action to overcome some of them and would welcome collaboration with UNCTAD. Contrary to the general perception, sub-Saharan Africa offered huge CDM potential and it was felt that international donor organizations should take the lead in helping the region realize its potential.

35. Representatives of Angola, Cuba and Senegal presented their experience with CDM and the current status of their internal processes of establishing or upgrading their DNAs. The challenge of building a legal framework, training and human resource capacity to work at the DNA level, among others, was emphasized. The need and desire for capacity-building was frequently mentioned, with UNCTAD having the role of sharing experiences from other countries. It was also stressed that developing countries should learn how to design projects, determine baselines and demonstrate additionality in such a way that the Executive Board recognized it. Developing countries also needed to learn to negotiate CERs, by knowing the market and its price evolution. It was reinforced that a sectoral approach to CDM was not welcomed by developing countries, since it could give rise to new rules and standards to which developing countries would not be able to abide. As such, they could be barriers to trade that were prejudicial to developing countries.

B. The round table session

36. The round table was composed by (a) Mr. Daniele Violetti, Secretary of the CDM Executive Board, UNFCCC; (b) Mr. Marcel Alers, Principal Technical Adviser, MDG Carbon Facility, United Nations Development Programme (UNDP); and (c) Mr. Stefan Denzler, Programme Manager from Switzerland’s State Secretariat for Economic Affairs (SECO).

37. The session aimed to ascertain the outcome/results of the meeting and how those might best be conveyed to UNCTAD’s governing body, taking into account that other United Nations agencies were also working with CDM-related issues (UNFCCC, UNDP, UNEP and others). It also aimed to make concrete recommendations on how to overcome the existing obstacles to greater CDM investment flows and give guidance to UNCTAD’s work in this area in accordance with the mandate contained in paragraph 100 of the Accra Accord.

38. Mr. Violetti provided insights on the direction that regulators were taking in a post-2012 regime and stressed that CDM was indeed a success. Despite its unequal distribution, the number of countries in the pipeline had increased as a result of some of the actions taken by the CDM executive board: the creation of the DNA Forum, bringing together DNAs, sharing experiences, discussing problematic areas, the Nairobi Framework dedicated to capacity-building, and the CDM Bazaar. Mr. Violetti welcomed the interest of UNCTAD in the CDM and mentioned that UNCTAD could join in efforts by UNFCCC, UNDP, UNEP and the World Bank within the Nairobi Framework to boost the identification of investment opportunities in developing countries.

39. Mr. Alers explained UNDP’s strategy with respect to climate change, which relied on three blocks: (a) mitigation; (b) carbon facility to help access to the CDM and joint implementation; and (c) a third block of activities dedicated to supporting capacity-building under the Nairobi Framework. Mr. Alers believed that, as a think thank, UNCTAD could do studies on trade-related issues, for example on existing tariff and non-tariff barriers to climate-friendly goods and technologies, some of which were only available through costly commercial brokers. Another action for UNCTAD was to provide input to more transparent and equitable climate-friendly pro-development labelling and standards regime, and to address shortcomings in the Harmonized System (HS) code system, which currently did not differentiate clean and renewable energy from other energy technologies.

40. Mr. Denzler presented CDM capacity-building actions from a donor's perspective, listing Swiss initiatives in the area. As for possible roles for UNCTAD, he raised the identification of trade opportunities, biofuels, bioenergy, climate-friendly products, etc. It was stressed that it would be dangerous if developing countries started producing dirty products because they had no reduction commitments. He stressed that the international community could play a role in making trade policy supportive to climate objectives. Mr. Denzler mentioned that, from a donor's point of view, he would like to see a common fund, and that each agency should stick to its core business and cooperate closely with other agencies to avoid duplication.

41. During the following interactive debate, participants were interested to know what was behind the idea about which countries would be eligible for a "modified CDM", arguing that it was too early and inappropriate to discuss differentiation among developing countries and that this would block the discussion of good ideas to improve the CDM. In addition, one participant emphasized that there was no space to renegotiate the nature of UNFCCC. Actually, the only existing differentiation was between developing countries (non-annex I) and developed countries (annex I).

C. Chair's conclusions

42. The CDM had successfully created a dynamic carbon market. By April 2009, it had issued 277 million tons of CO_2, generating €2.7 billion in CDM investment at €10 t/CO_2[2]. It was expected that during the period 2008–2012, 1.335 billion CERs would be available, generating roughly €13 billion in new investment. As a relatively new finance mechanism, the CDM had a great potential to generate huge investments to foster in developing countries a more pragmatic transition towards a lower carbon-intensive economy.

43. It was felt that, although the CDM was not perfect, its achievements during its four years of existence far outweighed its difficulties and flaws. It had provided a practical exercise in engaging the private sector in both developed and developing countries. The experts overwhelmingly recognized that the CDM had already several elements of success and had the potential to be a driver for sustainable development in developing and least developed countries. Currently, there were 4,687 projects in the CDM pipeline and only 10 host countries accounted for 87 per cent of all CDM projects. Projects were mostly under the renewable energy category and were concentrated in the Asia–Pacific and Latin America regions.

44. There was uncontested consensus and support for the CDM among developing countries, even though its shape and potential size in the post-2012 period was for the moment unclear. Nevertheless, most of the participants reinforced an overall interest in the upscaling of the CDM mechanism, the magnitude and direction of which would depend on the future level of demand for carbon credits by developed countries. Such demand would be driven by the future emission reduction targets of annex I parties, currently under negotiation in the Ad Hoc Working Group under the Kyoto Protocol, as well as any commitments that might be undertaken as a result of the Ad Hoc Working Group on Long Term Collaborative Action. The EU had so far been the key driver in the carbon market and its emissions trading scheme had been a major source of demand for CERs. It was felt that the future of the CDM would largely depend on the support it received from EU and United States policies related to the carbon market.

45. Several representatives raised the issue of regional distribution of CDM projects and urged that efforts be taken to increase the participation of developing countries from all regions in the CDM. One contributing factor to that was the nature of the CDM process. As

[2] At the time of reporting, CER prices for December 2009 were being traded at €14.

an investment-based process, the carbon credit element in the CDM, as part of an already-existing investment project, tended to follow the investment paths that were already in place in a given host country. How to expand this path to promote further investment and CDM projects remained a challenge linked to the existing enabling policy environment and strategic vision, as well as the necessary institutional resources allocated to the DNA.

46. On the issue of geographical distribution of projects among developing countries, a possible way to address that was the implementation of CDM PoA as a way to broaden the reach of the CDM to include developing countries currently underrepresented in the CDM portfolio. Typically, that happened because they had few or no large emission sources that could achieve significant emission reductions through technological upgrades. It also facilitated the inclusion of households and small and medium-sized enterprises that individually would not achieve a minimal level of emission reductions to enter the market. Moreover, the PoA could reduce transaction costs as compared to the traditional registration procedure of single CDM projects.

47. Several representatives from developing countries identified the need for capacity-building to increase awareness of the benefits the CDM may offer in achieving their sustainable development goals as well as to increase capacity in designing and formulating CDM projects with realistic expectations. Moreover, assistance was needed to enhance their capacity to attract investment as well as increase chances for effective technology transfer through CDM projects. It was stressed that, in increasing and improving developing countries' participation in CDM, an enabling environment and strategic national mitigation roadmap anchored by a solid institutional framework and specific transparent legal provisions were vital to encourage investment on emissions reduction projects under CDM.

48. It was felt that financial innovation could play an important role in addressing climate change challenges. Creation of derivative markets to give support to the carbon markets, as well as the launching of specific national CDM funds, were proposals worth exploring. Experts highlighted that the creation of an enabling environment to attract international and domestic investment should be explored with national and regional development bank institutions.

49. The inclusion of carbon capture and storage (CCS) and carbon-negative technologies was also mentioned as a possible extension of the CDM. These suggestions were followed by a heated debate among participants, who did not reach a consensus. Among other reasons, many participants argued that there were no clear sustainable development gains from CCS and carbon-negative projects and as such they should remain outside the scope of the CDM mechanism. In addition to the perceived steep cost curves of such technologies, it was highlighted that no CDM methodologies for them were approved to date.

50. The possibility of including sectoral CDMs in the future regime was also raised, as well as the concept of differentiation among developing countries, both of which generated diverging opinions among participants. Whilst it could provide for the upscaling of CDM, a sectoral approach which was not project-based would involve establishing technical PPM-based standards (or reference thresholds) that might not be attained in a given sector in all countries. As such, the concern was strongly expressed that such an approach might also lead to potential barriers to trade for developing country exports, particularly from those countries with less advanced production technologies.

51. Experts addressed the issue of whether and how the three pillars of sustainable development were taken into consideration in approving CDM projects. It was stressed that the host country had the sole prerogative to establish the criteria and indicators of sustainability, as well as decide on whether the project contributes to sustainable development. In that context, the issue of standardization (and comparability) of nationally defined sustainable development criteria (for approval of CDM investments) was raised but

no consensus was reached about its usefulness, even though several host countries identified national capacity gaps and needs in that regard.

52. The expert meeting considered that the ongoing negotiations under the Bali Roadmap could benefit from the experience with CDM in its first four years of existence and result in improvements to allow the mechanism to achieve its full potential with greater geographical and sectoral coverage. It was felt that, in designing the future shape for some elements of the CDM, there should be some flexibility in adapting to national and regional circumstances. The challenge remained as to how to preserve the environmental integrity and economic soundness, while speeding up and streamlining the CDM project cycle. In that context, the experts discussed several related consensual issues such as the asymmetry in the current geographical and sectoral coverage, access to financial support for project developers, technology transfer and capacity-building needs. As non-consensual issues, the experts discussed sectoral approaches, potential inclusion of REDD as well as CCS in the CDM or as part of NAMAs. Even though there was not necessarily consensus on those issues, the discussions were helpful in shaping the more specific recommendations for UNCTAD, suggested below.

53. The general outcomes of the expert meeting included:

(a) As the United Nations focal point for the integrated treatment of trade and development and issues of finance, investment, technology and sustainable development, UNCTAD should play a distinct, active and consequential role in attenuating the economic and human consequences of global warming, in particular in developing countries;

(b) With its analytical, technical and capacity-building expertise, and in accordance with paragraph 100 of the Accra Accord, UNCTAD should assist developing countries in identifying opportunities under the CDM as well as design low carbon intensive development strategies to attract investments in areas where national advantages exist;

(c) UNCTAD should consider active involvement in the implementation of the Nairobi Framework, a standing effort in promoting inter-agency collaboration and coordination, involving UNFCCC, the World Bank, UNEP, UNDP and the African Development Bank;

(d) Assist developing countries in pursuing Nationally Appropriate Mitigation Actions (NAMAs); and

(e) Enhance institutional capacity of developing countries to carry out Programme of Activities (PoAs) under CDM (also known as programmatic CDM).

54. The round table highlighted that CDM was basically an investment scheme which responded to many of the same rules and drivers as traditional foreign direct investment (FDI). UNCTAD had a strong capacity to assist developing countries in attracting and managing FDI, and that capacity could be adapted to the specifics of the CDM.

55. In fulfilling the mandate contained in paragraph 100 of the Accra Accord, the expert meeting made the following actionable recommendations with a view to guiding the role of UNCTAD in support of sustainable development and climate changes policies in developing countries:

(a) **Implementation of Programme of Activities (PoAs) under CDM**: With only eight CDM–PoAs under validation at the CDM Executive Board process, efforts are needed to develop institutional and technical capacity of national governments to formulate and carry out Programme of Activities (PoAs). UNCTAD could play a role in addressing the main shortcomings identified so far and in assisting developing countries in benefiting from CDM–PoA;

(b) **Capacity-building of DNAs**: Under the Nairobi Framework, UNCTAD can join efforts with the other agencies under the Nairobi Framework (UNFCCC, the World

Bank, UNEP, UNDP and the African Development Bank), to help build and enhance capacity of the DNAs of least developed countries to become fully operational. As frequently raised during the meeting, there is a need for developing countries to be able to present their own methodologies (for example, for the transport sector) and to build capacity in developing CDM project activities. Considering that some developing countries (such as Brazil, China, Mexico and India, among others) already developed a significant governmental structure to process CDM projects, there is also enormous scope for intense South–South cooperation in this area. The same is valid for Programme of Activities under CDM. Equally, experts recommend UNCTAD to explore synergies with ongoing related programmes at the International Fund for Agricultural Development, IRR and the United Nations Institute for Training and Research;

(c) **Nationally Appropriate Mitigation Actions (NAMAs):** Notwithstanding the existing CDM potential, consensus is growing that developing countries stand to gain with the early consideration of strategic policies towards a lower carbon-intensive economy. UNCTAD was called upon to assist developing countries in pursuing alternative ways in achieving both sustainable development goals and climate change objectives through NAMAs, e.g. by exploring niche areas to promote environmentally preferable products with clear potential to reduce emissions from deforestation and forestry degradation, increase energy efficiency, and by promoting clean transportation options and less carbon intensive renewable energy options;

(d) **Upgraded mechanisms for financing CDM projects**: The issue of general lack of financing is one of the most cited barriers inhibiting CDM project development, both for traditional activities and Programme of Activities (POAs) under CDM. Financing constraints are noted by many CDM project developers, particularly with respect to projects that have high initial investment costs or perceived high risks for investors. In addition to the conventional types of project risks, there are risks that are specific to CDM projects, such as those related to CDM baseline methodology and host country approval, among others. Negotiations under the Bali Roadmap can provide an opportunity to reduce or remove some of the CDM-specific risks. New tools developed by funding organizations and multilateral agencies (e.g. investment guarantee approaches and insurance tools) could help unlock funding towards CDM projects, even in view of the global economic downturn and current low carbon market prices. Efforts to mainstream carbon finance into the operations of development banks can provide a positive overall impact on facilitating CDM project development in host countries – in particular in specific geographical regions which are currently underrepresented. Given UNCTAD’s mandate to address general financial constraints by developing countries, this experience can be channeled to the specifics of the CDM context;

(e) **Transfer of technology potential in CDM:** Finally, as the actual transfer of technology potential in CDM projects remains difficult to verify and measure, participants recommended that UNCTAD carry out analyses related to trade-related issues. For instance, it was suggested that UNCTAD could focus on existing tariff and non-tariff barriers to climate-friendly technologies and shortcomings in the HS code system, which currently does not differentiate clean and renewable energy from other energy technologies.

II. Organizational matters

A. Election of officers

(Agenda item 1)

56. At its opening plenary meeting, on 27 April 2009, the expert meeting elected Mr. Gopinathan Achamkulangare (India) as its Chair and Mr. Flavio Soares Damico (Brazil) as its Vice-Chair-cum-Rapporteur.

B. Adoption of the agenda and organization of work

(Agenda item 2)

57. At its opening plenary, the multi-year expert meeting adopted its provisional agenda (TD/B/C.I/EM.1/1). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Trade and investment opportunities and challenges under the Clean Development Mechanism (CDM)
4. Adoption of the report of the meeting

C. Adoption of the report of the meeting

(Agenda item 4)

58. At its closing plenary meeting, the expert meeting authorized the Vice-Chair-cum-Rapporteur, under the authority of the Chair, to finalize the report after the conclusion of the meeting.

Annex I

Attendance*

1. Representatives of the following states members of UNCTAD attended the expert meeting:

Algeria
Angola
Argentina
Austria
Benin
Botswana
Brazil
China
Colombia
Cuba
Czech Republic
Denmark
Dominican Republic
Ecuador
Germany
Ghana
Haiti
Holy See
Honduras
India
Indonesia
Iran, Islamic Republic of
Israel
Italy
Kazakhstan
Kyrgyzstan
Malaysia
Mauritius
Mexico
Morocco
Pakistan
Panama
Peru
Philippines
Poland
Qatar
Romania
Russian Federation
Saudi Arabia
Senegal
South Africa
Spain
Sudan
Sweden
Switzerland
Syrian Arab Republic
Thailand
United Arab Emirates
United Republic of Tanzania
United States of America
Venezuela, Bolivarian Republic of
Yemen

2. The following observer was represented at the expert meeting:

Palestine

3. The following intergovernmental organizations were represented at the expert meeting:

European Community
International Organization for Migration
Organization of the Petroleum Exporting Countries
South Center

* For the list of participants, see TD/B/C.I/EM.1/Inf.1.

4. The following United Nations organizations were represented at the expert meeting:

Economic Commission for Europe
United Nations Foundation

5. The following specialized agencies or related organizations were represented at the expert meeting:

International Labour Office
International Telecommunication Union
International Fund for Agricultural Development
United Nations Framework Convention on Climate Change (UNFCCC)
United Nations Environment Programme (UNEP)
United Nations Industrial Development Organization
United Nations Institute for Training and Research
World Bank
World Intellectual Property Organization
World Meteorological Organization
World Trade Organization (WTO)

6. The following non-governmental organizations were represented at the expert meeting:

General Category

International Center for Trade and Sustainable Development
Ingénieurs du monde
International Council of Environmental Law
Village Suisse ONG

7. The following associations and organizations were invited to the expert meeting:

Climate Strategies
Climate XL Africa
Euclid Intergovernmental Organization for Sustainable Development
International Organization for Sustainable Development
Intellectual Property Watch
International Rubber Research and Development Board

8. The following panellists were invited to the expert meeting:

Mr. Roberto Carvalho de Azevedo, Permanent Representative of Brazil to WTO and UNCTAD
Mr. Richard Kinley, Deputy Executive Secretary of the UNFCCC
Mr. Luzius Wasescha, Permanent Representative of Switzerland to WTO
Mr. Jorgen Fenhann, Senior Energy Scientist, UNEP Risoe Centre
Mr. Adriano Santhiago de Oliveira, General Coordination on Global Climate Change, Ministry of Science and Technology, Brazil
Ms. Graciela Chichilnisky, Columbia University
Ms. Julie Raynal, European Commission – DG Environment
Ms. Ulrika Raab, Senior Advisor, Swedish Energy Agency and former Member of the CDM Executive Board
Mr. Drew Nelson, State Department, United States of America
Mr. Miles Austin, Head of European Regulatory Affairs, EcoSecurities
Mr. David Lunsford, Policy Leader: Emissions Trading, International Emissions Trading Association
Ms. Natalia Gorina, Emissions Portfolio Manager, Essent Trading

Mr. Aaron Cosbey, Associate and Senior Climate Change and Trade Advisor of the International Institute for Sustainable Development
Mr. Mikko Halonen, Gaia Global
Ms. Paula Castro Pareja, University of Zurich
Mr. Alberto Magalang, Designated National Authority of the Philippines
Mr. Fang Jin, Development Research Centre of the State Counsel, China
Mr. Theo Yasause, Designated National Authority of Papua New Guinea
Ms. Julia Justo Soto, Executive Director, National Environment Fund, Peru
Mr. Govinda Timilsina, World Bank study on CDM potential in sub-Saharan Africa
Mr. Raul Garrido, Ministry of Science, Technology and Environment (CITMA), Cuba
Mr. Cheikh Saadbouh Seck, Deputy-Director of Foreign Trade, Ministry of Trade, Senegal
Mr. João Lusevikueno, Director of Trade Policy, Ministry of Commerce, Angola
Mr. Daniele Violetti, Secretary of the CDM Executive Board, UNFCCC
Mr. Marcel Alers, Principal Technical Advisor Climate Change Mitigation and Manager, MDG Carbon Facility, United Nations Development Programme

Annex II

Programme

Monday, 27 April	
10 a.m.–1 p.m.	**Opening session: The Clean Development Mechanism's importance in facilitating sustainable development for developing countries** ***Opening statement:*** Mr. Habib Ouane on behalf of Dr. Supachai Panitchpakdi, Secretary-General of UNCTAD 1. Election of officers 2. Adoption of the agenda and organization of work 3. Trade and investment opportunities and challenges under the Clean Development Mechanism (CDM) ***Keynote address:*** Mr. Richard Kinley, Deputy Executive Secretary of UNFCCC ***Speakers:*** – H.E. Mr. Roberto Carvalho de Azevedo, Permanent Representative of Brazil to the WTO and UNCTAD – H.E. Mr. Luzius Wasescha, Permanent Representative of Switzerland to the WTO – H.E. Mr. Gopinathan Achamkulangare, Permanent Representative of India to the United Nations in Geneva **Interactive debate**
1 p.m.–3 p.m.	Lunch Break
3 p.m.–6 p.m.	**Session 1: The Clean Development Mechanism – current state of play and proposed reforms** ***Speakers:*** – Mr. Jorgen Fenhann, Senior Energy Scientist, UNEP Risoe Centre – Mr. Adriano Santhiago de Oliveira, General Coordination on Global Climate Change, Ministry of Science and Technology, Brazil – Ms. Graciela Chichilnisky, UNESCO Professor and Director, Columbia Consortium for Risk Management, Columbia University **Interactive debate** **Possible questions for discussion:** – In which sectors and in which countries is the CDM effective? In which is it less effective, and why? What can be done to address its geographical and sectoral reach? – What are the implications for developing countries of the various options for reform of the CDM mechanism that have been proposed in the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG–KP)?
6 p.m.	**Reception** **Venue: Bar Escargot, third floor, Palais des Nations**

Tuesday, 28 April

10 a.m.–1 p.m.	**Session 2: The carbon market: current state, financial risks, demand, perspectives and realistic options for post-2012** ***Speakers:*** – Ms. Ulrika Raab, Senior Advisor, Swedish Energy Agency and former Member of the CDM Executive Board – Mr. Jorge Vitorino, Permanent Delegation of the European Commission to the International Organizations in Geneva – Mr. Miles Austin, Head of European Regulatory Affairs, EcoSecurities – Mr. David Lunsford, Policy Leader: Emissions Trading, International Emissions Trading Association – Ms. Natalia Gorina, Emissions Portfolio Manager, Essent Trading **Interactive debate** **Possible questions for discussion:** – How have the existing carbon markets enabled sustainable development gains in CDM host countries? – How has the financial crisis affected expectations in carbon markets? – What is the demand for certified emission reductions (CERs) today? How has this demand evolved in the EU Emissions Trading Scheme (EU/ETS) and in individual Annex I Parties? – How could the forthcoming post-2012 regime trigger greater CDM investments? – What are the expectations under the post-2012 regime?
1 p.m.–3 p.m.	Lunch break
3 p.m.–6 p.m.	**Session 3: Developing country interests in climate change action and the implications for a post-2012 climate change regime** ***Speakers:*** – Mr. Aaron Cosbey, Associate and Senior Climate Change and Trade Advisor of the International Institute for Sustainable Development – Mr. Mikko Halonen, Gaia Global – Ms. Paula Castro Pareja, University of Zurich – Mr. Albert Magalang, Designated National Authority of the Philippines **Interactive debate** **Possible questions for discussion:** – What are the prospects of expanding the reach of “programmatic” CDM under the post-2012 period? And to what extent could this expansion facilitate the reduction of carbon intensity in given economic sectors in developing countries, whilst attracting investment and promoting the transfer of new and less carbon intensive technologies? – What is the CDM’s real contribution to clean technology transfer? How could it be better assessed and enhanced?

Wednesday, 29April

10 a.m.–1 p.m.	**Session 4: CDM and developing country experiences and expectations under the post-2012 regime** ***Speakers:*** – Mr. Fang Jin, Development Research Centre of the State Counsel, China – Mr. Elmer Schialer, Minister and Deputy Permanent Representative, Permanent Mission of Peru to the United Nations in Geneva – Mr. Govinda Timilsina, World Bank study on CDM potential in sub-Saharan Africa **Speaking from the floor:** – Mr. Raul Garrido, Ministry of Science, Technology and Environment, Cuba – Mr. Cheikh Saadbouh Seck, Director of External Trade, Ministry of Trade, Senegal – Mr. João Lusevikueno, Director of Trade Policy, Ministry of Commerce, Angola **Interactive debate** **Possible questions for discussion:** – What could be new and innovative approaches to increase the number of beneficiary CDM host countries and economic sectors covered? – Should the screening of projects by Designated National Authorities (DNAs) follow a set of criteria and standards common to all DNAs?
1 p.m.–3 p.m.	Lunch break
3 p.m.–6 p.m.	**Round table on climate change, trade and investment, and the role of UNCTAD** ***Panellists:*** – Mr. Daniele Violetti, Secretary of the CDM Executive Board, UNFCCC – Mr. Marcel Alers, Principal Technical Advisor Climate Change Mitigation and Manager, MDG Carbon Facility, UNDP – Mr. Stefan Denzler, Programme Manager, State Secretariat for Economic Affairs (SECO), Switzerland **Interactive debate and brief interventions by all Designated National Authorities** **Possible question for discussion:** – What roles could UNCTAD most usefully play in ensuring that the CDM achieves its full potential for contributing to sustainable development in host countries?
6 p.m.	**Closing remarks by the Chair** H.E. Mr. Gopinathan Achamkulangare, Permanent Representative of India to the United Nations