

Subject: IETA Response to the Call for Input on recommendations for possible changes to the modalities and procedures of the CDM

March 25, 2013

Boost demand and revise interest in the CDM

Carbon markets are currently exceptionally weaker than we anticipated them to become in years past. This is largely due to mitigation pledges that fall far short of what is needed to address the broader climate problem. The world is on the brink of losing the assistance which carbon markets, and the CDM in particular, can and should provide. In order to meet the 2 degrees target the most cost effectively, Parties should continue to revise their climate ambitions and to continue supporting the CDM.

Much progress has been made in reforming the Clean Development Mechanism, but we must do still better in many areas to improve the transparency, efficiency and reliability of the only operational international mitigation tool there is - the CDM.

IETA recommends that Parties stop the process of losing interest in the CDM while we are still only at the earliest stages of developing new mechanisms. That would be immensely damaging by undermining the faith investors have in carbon markets and by denying to the developed and developing countries the economic and environmental benefits CDM brings. In addition, the CDM can play an important transitional and supplemental role in the establishment of bottom-up approaches that will feed into a new market mechanism.

One simple and quick point of action IETA recommends for Parties is to review the urgency of options provided by the High Level Panel on the CDM Policy Dialogue in 2012 to improve the demand and interest in the CDM. The Policy Dialogue's Report is a seminal document that lays a solid and sustainable path forward for the CDM. IETA believes that is in the best interest of the broader carbon market to see Parties adopt the recommendations of the CDM Policy Dialogue in 2013.

Establish a CDM Capacity Fund

A reformed CDM may fulfill a useful role in the future climate architecture. Lack of demand is however preempting that potential role by destroying the current framework and capacity of the international carbon market. To bridge the current near-term market situation and prepare the ground for a new phase in the international carbon market, IETA endorses and recommends the establishment of a CDM Capacity Fund to be implemented alongside the recommendations of the CDM

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Such a Fund will perform the following:

- 1) Provide a framework for investors to make commitments that contribute towards international or domestic targets which will in turn provide the market time and support to allow the necessary reform and scaling up of the CDM to be implemented, and
- 2) Provide support to retain the capacity that has been built up around the CDM market and maintain the momentum in the development of carbon markets globally, and
- 3) Maintain engagement and confidence of the private sector in market-based mechanisms so that large financial flows can be deployed through these channels when more ambitious reduction targets are in place.

If the Fund could buy different CERs at different prices, smaller allotments of public finances would be necessary. The structure of the Fund would therefore need to allow access to price discrimination—just as in the broader commodities mix that the world operates with. For a fund to have any significant impact, supply-side measures will be needed too, e.g. restricting crediting periods and/or CER discounting.

Significant deficiencies still need work

In analysing and implementing policies related to significant deficiencies and appeals, IETA encourages Parties to keep reasonable transaction costs as key considerations in its decision-making and recognize efficiency in such an appeals process. If a reserve/pool were created and the long-term results were such that the costs of a reserve/pool raised the transaction costs for participating in the market to an unsustainable level, then the mechanism and the market's function would be significantly weakened. As a consequence, we hope that in analyzing and implementing policies related to significant deficiencies and appeals, Parties will recognize efficiency in such an appeals process and to keep reasonable transaction costs as key considerations in its decision-making.

Accreditation cycles revision

IETA recommends that Parties should consider a revision of the CDM accreditation procedure in order to improve the efficiency and effectiveness of the CDM accreditation process whilst not placing unnecessary burden on DOE's. The current procedures on accreditation cycles do not provide a sustainable burden sharing between DOE's and other institutions in the future.



LoA Withdrawals

We recommend Parties to review the UNFCCC Secretariat's concept note (EB 68 Annex 18), which outlines issues that may arise in the event of withdrawal or suspension of LoA's before making a final decision on this issue.

Investors in the CDM thus far have treated the LoA from the host country as providing political certainty to move forward with a project concept, and investors then base further investment decisions upon the successful granting of the LoA. Certain details included with the LoA related to timescales are currently sufficient from an overall business perspective. If Parties move forward with procedures to allow host countries to withdraw those LoA's, business certainty in the CDM will be lost. If an LoA is to have a procedure that enables it be withdrawn at a later stage, then at the very least businesses should be notified in advance of what criterion and conditions will be enforced if a project is subject to such a withdrawal or suspension by the host country.

Appeals mechanism

Establish and implement an independent appeals mechanism which will allow for both positive rulings (e.g. approvals) and negative rulings (e.g. rejections) to be appealable. From a legal perspective, the fact that there is no independent appeals process in the event that liabilities shall be borne by DOEs and/or project participants does not follow the common standards of due process. IETA recommends that Parties consider an independent appeals process and IETA recommends that it consider arbitration in the ICC as a potential independent forum.

Enable flexible crediting periods

Many potential CDM projects are currently deemed ineligible on additionality grounds because they do not meet the current criteria for crediting periods. Allowing a more flexible approach to crediting period length will enlarge the scope of potential CDM projects and boost demand for CERs. However, IETA strongly opposes any change to crediting periods for projects already registered, as that would entail an arbitrary change in existing regulations. Investments in the CDM up until now were made on the basis of regularity certainty. We hope to see a more flexible approach towards crediting periods for new projects not currently registered or in the validation stage.

Removal of Administration Share of Proceeds charge to assist with administration expenses of the Executive Board (EB).



According to the EB's report to CMP 8, the EB is extremely well resourced for the years ahead: a surplus budget can cover EB's expenses for the next 3 years according to the report. This is a far better financial situation than many companies involved in the CDM-which have had to exit or come close to completely exiting the carbon market. Removing this charge will relieve additional costs on carbon transactions.

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Annex: IETA's response to the call for public inputs 'on possible changes to CDM modalities and procedures' issued by the CDM Executive Board from 17 December 2012 to 23 January 2013 is available here:

http://cdm.unfccc.int/public_inputs/2012/eb70_07/index.html

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