

Subject: IETA's suggested changes to the modalities and procedures for the clean development mechanism in reference to the call for inputs from FCCC/KP/CMP/L.8

IETA Member Commitments

First and foremost, it should be noted that IETA and its +140 members are dedicated to:

- The objectives of the United Nations Framework Convention on Climate Change -- and ultimately climate protection;
- The establishment of effective market-based trading systems for greenhouse gas emissions by businesses that are demonstrably fair, open, efficient, accountable and consistent across national boundaries; and
- Maintaining societal equity and environmental integrity while establishing these systems.

Please find below IETA's suggested changes to the list of items on the CDM modalities and procedures in FCCC/KP/CMP/L.8¹. We would also like to point out our inputs to UNFCCC on the CDM modalities and procedures review in 2013 are available on the UNFCCC website².

1. The membership and composition of the Executive Board of the clean development mechanism, including similarities to and differences from other intergovernmental bodies within the UNFCCC process;

IETA strongly welcomes and endorses any effort to increase transparency of the CDM Executive Board (EB) meetings. Previous compositions of the EB have included some members who lack the technical and professional knowledge of the CDM process. As a result, the operating speed of the CDM registration process has suffered. Since 2011, this has not been an issue.

¹ <http://unfccc.int/resource/docs/2013/cmp9/eng/l08.pdf>

² <http://unfccc.int/resource/docs/2013/smsn/ngo/351.pdf>



However, we would welcome any additional steps to further operationalize and streamline the CDM registration process with an EB composition that includes members who have the full technical capacity to participate in the management of the CDM process.

Therefore, IETA believes that membership and composition of the CDM Executive Board should include representation from the private sector and other organisations to the extent that these members are in full compliance with UNFCCC CDM rules and declare any and all conflicts of interest upfront. We would also welcome any effort by the UNFCCC to strengthen and promote gender balance in the EB's composition.

2. The liability of designated operational entities to compensate for the issuance of certified emission reductions resulting from significant deficiencies in validation, verification and certification reports;

IETA believes it is essential to re-consider and revise the objectives and principles of paragraphs 22 and 24 of the CDM's modalities and procedures (M&P) which address the issue of significant deficiencies in validation, verification and certification reports and any liability for the subsequent excess issuance of CERs. Whilst we support maintaining environmental integrity and resolving the issue of excess issuance, the market impact of placing sole responsibility for excess issued credits on designated operational entities (DOEs) would be severely negative as a result of such decisions. This would undoubtedly further drive up transaction costs in a market where there are currently very few incentives for investors. Thus far, liabilities arising from significant deficiencies are rational in some instances, but the net result has deterred DOE's from engaging in certain project activities due to highly perceived risks.

We therefore believe that for the CDM to be successful in the long-term, liabilities applied for significant deficiencies and excess issuance should focus on a different set of key principles which do not cause detriment to the CDM market by imposing unreasonable costs on the DOE or indirectly passed onto the CER seller and/or buyer.



We would encourage the SBI to make full use of its opportunities to meet and hear from a wide range of carbon market stakeholders in the revision of paragraphs 22 and 24 of the CDM's M&P, and would further encourage the SBI and other UNFCCC entities to consult with IETA and the D.I.A. (Designated Operational Entities and Independent Entities Association) on this issue.

3. Provisions for programmes of activities;

IETA considers it absolutely essential that the revised CDM M&P's are also applied to programmes of activities (PoA's) to ensure consistency in the overall design and function of the CDM. We would also encourage the application of materiality to PoA's, and that clarity on erroneous inclusions of CPAs be resolved and addressed as quickly as possible in order to reduce current uncertainties for PoA project participants.

4. Length of the crediting period;

IETA believes that any change in crediting periods should not affect the feasibility of investing in existing or future CDM projects. The length of CDM crediting period should always be consistent with the project's feasibility analysis as described in the project design document (PDD) submitted to the UNFCCC. We would encourage the UNFCCC Secretariat to examine the option of longer crediting periods, particularly for projects in Least Developed Countries (LDC's), as some projects are strongly dependent on CER revenues during its entire operation.

5. Requirements for the demonstration of additionality;

IETA would welcome simplified procedures that can provide additional clarity and certainty on a project's additionality assessment. Such clarity would target positive lists, standardized approaches, the consideration of national and sectoral policies, and the 'First of its kind' analysis.

We would also welcome any effort to further simplify procedures for additionality for projects in LDC countries.



6. The further elaboration of the role of designated national authorities of Parties included in Annex I and Parties not included in Annex I;

IETA supports any effort to increase transparency in the approval process by designated national authorities (DNA's). We would like to see DNA's further define requirements for the content and format of letters of approval (LOA's) in order to avoid a patchwork of different LOA formats which currently exists in the global CDM market. Preferred LOA templates amongst DNA's would maintain consistency for the carbon market and provide a further level of certainty for project participants. We would also endorse any effort by the UNFCCC to clarify principles and procedures for DNA's to withdraw or suspend LOA's. This process is currently on a case-by-case basis dependent on the DNA. Streamlining and endorsing universal procedures for DNA's to follow would increase investor confidence in the CDM as a whole.

IETA does not support any effort by a DNA to perform project validations and/or verifications as this is a clear conflict of interest and would undermine investor confidence in the CDM. Furthermore this conflict of interest could raise an automatic termination of the project by certain multinational companies as it would violate other legal rules and restrictions on corporate involvement in investments. We support the current process of third-party validation and verification as well as registration and issuance by the CDM Executive Board and the UNFCCC. Any changes in this process will further risk fragmentation in the carbon market and cause investors to reduce their interest and investments in the CDM.

7. The simplification and streamlining of the project cycle for certain project categories;

The following project categories are addressed:

- 1) LDC's,
- 2) Of a small-scale nature, and
- 3) Located in CDM underrepresented countries



These 3 project ‘categories’ are subject to the same transaction costs as any other type of CDM project. This is unfortunate as very often these project categories generate higher sustainable development co-benefits than other projects or methodology types. Therefore, IETA would support efforts to increase the simplification and streamlining of the project cycle for projects in these categories. An example of this would be to further define standardized baselines and/or positive lists for these project types. We would also support increasing thresholds for small-scale and micro-scale energy efficiency projects in order to generate a higher amount of emission reductions that can be included in that projects’ methodology.

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IETA greatly appreciates the opportunity to provide our input on this issue. Please do not hesitate to contact IETA’s Director for International Policy, Jeff Swartz at swartz@ieta.org should you have any questions regarding this letter.

Thank you for your consideration.

Dirk Forrister
President and CEO, IETA