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Item 12 of the provisional agenda

SUBSIDIARY BODY FOR IMPLEMENTATION

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Item 8 of the provisional agenda

**PRINCIPLES, MODALITIES, RULES AND GUIDELINES FOR THE  
MECHANISMS UNDER ARTICLES 6, 12 AND 17 OF THE  
KYOTO PROTOCOL**

**Submissions from Parties**

**Note by the secretariat**

**Addendum**

1. This addendum to document FCCC/SB/1999/MISC.3 contains an additional proposal on principles, modalities, rules and guidelines for the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol submitted by a Party in accordance with decision 7/CP.4 (see FCCC/CP/1998/16/Add.1).

2. In accordance with the procedure for miscellaneous documents, this submission\* is attached and reproduced in the language in which it was received and without formal editing.

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**FCCC/SB/1999/MISC.3/Add.4**

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# **Making CDM accessible to all economic actors**

## **A Submission by MEXICO**

### **Facilitating access to CDM for small/ medium actors**

High transaction costs of CDM and possible complexity/ centralization of its institutional settings may prevent small/ medium scale economic actors from having access to the mechanism. This is likely to take place both at the supply and at the demand sides, reducing the scope of the mutual benefits and jeopardizing the two objectives of CDM as stated in Art.12.2.

The project-by-project approach, the international taxation implied in Art.12.8 and the need for some multilateral control over the validation/ certification/ verification processes set limits to the desired reduction of transaction costs of CDM and decentralization of its operational framework.

However, those inherent limitations of the mechanism may be partially offset by an adequate design of the institutional framework, rules and guidelines.

### **Aggregation of small projects**

Two or several small scale projects **of the same kind** might be bundled (not merged) , without losing their own project identity with respect to the validation/ certification/ verification requirements, so as to be subject to **a single transaction** involving a single Annex I/ Annex B buyer- investor, acting on its own or on behalf of several small scale investors looking for CERs to participate in their national compliance system. Sharing the burden of its transaction costs, with or without state assistance, small local initiatives may thus coalesce to build up a fully fledged CDM project. Facilitating local initiatives is essential for the purpose of achieving sustainable development.

Both in Annex I/ Annex B and in the developing country concerned, the possibility of bundling projects would require specific national institutional arrangements,

including the establishment of public or private intermediaries sponsored or accepted by the national designated authorities or CDM focal points. Those arrangements, carried out in accordance with each country's national laws, are beyond the scope of current multilateral conversations, but they would have implications for the international regime, whose design should provide for their operation as long as they might enhance the potential of CDM and its declared objectives.

### **Decoupling supply and demand of CERs**

Irrespective of the acceptance of "composite projects", any project might be the result of a purely national initiative sponsored or approved by a developing country's designated authority or focal point. Any non-Annex I Party may wish to use existing public or private entities or set up new ones aiming to help finance CDM projects with revolving funds that would be recuperated once the CERs are sold to the final Annex B investor by means of a transaction that should be as transparent and well informed as possible. In this case, matching the interests of the non-Annex I participants and of the Annex I/ Annex B investors would not occur before the CERs transaction actually takes place.

This situation should be compatible with the conditions prescribed by the Kyoto Protocol, in terms of Art.12.5.

- A non-Annex I Party may *voluntarily* undertake a project which may **eventually** raise a *voluntary* interest in any Annex I/ Annex B Party, thus becoming an actual CDM project. The voluntary participation approved by each Party involved is to some extent unrelated to the **timing** of the participation.
- The achievement of "real, measurable, and long-term benefits related to the mitigation of climate change" depends on the quality of the project itself, as ascertained through validation/ certification/ verification processes, irrespective of the way resulting CERs are assigned, bartered or exchanged.
- Finally, the additionality principle is observed insofar the initial financing fund would not be available in the absence of a transaction regime allowing for its

revolving nature, that is, in the absence of CDM. Any public or private entity may consider financing a CDM project even beyond its annual budgetary limit for concessional action if the repayment is guaranteed through the normal CDM operation.

### **CDM projects: equity and sustainability concerns**

It is a matter of great concern for many developing countries, including Mexico, that inequalities involved in a transaction between a large foreign investor and a small, local economic actor or set of actors might result in unacceptable inequities. We oppose situations whereby the developing country would provide for natural and social resources required by a developed country investor merely to carry out his climate-related business, irrespective of the "host" country's needs and aspirations. The non-Annex I Party involved may certainly refrain from approving a CDM project that does not contribute to sustainable development, as defined by the Party itself on the basis of its sovereign decision, not only in terms of its own legislation but also on the grounds of the non eligibility as a CDM project. However, this does not guarantee that any project yields its best results in terms of sustainability. In most cases, this would call for a **multifunctional** approach that is best achieved when the project is framed from its inception in accordance with local and national requirements.

### **CDM and large economic actors in "host" countries**

The previous considerations are consistent also with the possibility of embedding a CDM project into a broader, multifunctional project, led by large economic actors in a developing country, be they public or private. The CDM institutional design and framework should make it possible that a "CDM project" represents only an aspect of a broader project including both, non-climate related dimensions and an additionality stemming from GHGs emission reductions. The "CDM part" –going an extra mile in a specific aspect for serving climate purposes, even if it entails

increased costs- may relate only to a minor component of a larger project, contrived and carried out by a non-Annex I Party for reasons of national interest. In this case it might be more practical for this non-Annex I Party to integrate this component in the project, achieve and certify the emission reductions, and then trying to recoup the additional cost incurred by means of the CDM mechanism, without having **beforehand** to identify a specific Annex I/ Annex B investor and assume itself as a "host country" at the inception of the whole project. The concept of "host" is not by the way included in Art.12 language; although it is fully consistent with its spirit, it should not preclude the possibility that the participation of an Annex I/ Annex B investor might only take place at the moment of the transaction of CERs.

The interest of sustainability in developing countries might be better served if those countries promote specific projects instead of merely "hosting" them.

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