



IETA

INTERNATIONAL EMISSIONS
TRADING ASSOCIATION

IETA Position Paper on the Clean Development Mechanism under a Post-2012 Framework

IETA enthusiastically supports efforts to reform and expand the existing market-based, flexible mechanisms in the context of a post-2012 international climate change agreement. Such reform and expansion is critical if the Parties are to increase the impact of these mechanisms on the development trajectory of host countries as well as to meet the demand for emission reduction credits from Annex I Parties. The Clean Development Mechanism (CDM), in particular, has demonstrated that market-based mechanisms spark new, keen interest in clean development activities in countries whose emissions constitute a critical proportion of the global total and therefore must be addressed if we are to meet our climate change objectives. IETA feels strongly that the invaluable momentum that the CDM has created in several key emitting countries must be preserved and built upon in the next commitment period. We also believe that the Parties should draw upon the lessons learned from CDM activities so far in order to improve the mechanism so that it can impact a much greater swath of countries and emitting activities in the future.

Some of the Parties have put forth ambitious proposals for the reform and expansion of the CDM and/or the creation of new flexible mechanisms. IETA applauds this enthusiasm. At this stage of the negotiations, however, there is a need for Parties and interested stakeholders to take a step back and look carefully at the practicalities of the relationships that would be at play within them and at the governance, data, and MRV requirements that would need to be addressed. This document lays out IETA's views on the proposals currently on the table. We believe that now – not after an agreement is signed – is the time to get it right. For this reason, we point out some gaps that need to be filled-in in some proposals, explain why others are simply unacceptable, and, in the case of land-use activities, provide our opinion that a full overhaul of approach would be best. The Parties must not simply choose from the proposals on the table; they must design mechanisms that will work well – for the climate, the Parties, and the private sector.

Time is also ripe for a simple reminder. The Parties need to address some remaining challenges with the CDM in its current form before pushing on to the next stage. IETA truly believes that now is the time to ensure that the whole-system reform of the CDM that was tentatively begun in Poznan is carried through to the finish. For the most part, the solutions that we have previously proposed in the *State of the CDM 2008* report and in our recent response to the call for input on improving CDM efficiency still remain to be implemented. Achieving those reforms, some of which were endorsed by the Parties in their guidance to the CDM Executive Board agreed at CMP 4, will facilitate a smooth transition into whatever modifications the Parties decide to make to the CDM's form and function in a post-2012 framework.

Geneva

24 rue Merle d'Aubigné
1207 Geneva, Switzerland
Tel: +41.22.737.05.00

Washington

1850 M St. NW, Ste. 600
Washington, DC 20036, USA
Tel: +1.202.629.5980

Brussels

11 Rond Point Schuman, #501
1040 Brussels, Belgium
Tel: +32.2.256.75.35

Ottawa

350 Sparks St., Ste. 809
Ottawa, ON K1R 7S8, Canada
Tel: +1.613.594.3912



Land Use, Land-Use Change, and Forestry (LULUCF) Activities

IETA believes that the Parties should overhaul their approach to reducing emissions and enhancing sequestration through land use activities. None of the terms currently in use by the Parties entails a comprehensive understanding of land use activities, yet it is clear that the interdependent nature of activities in this sector mean that all relevant activities must be addressed comprehensively and through a coordinated approach. For the purpose of reducing emissions and enhancing sequestration, IETA defines the 'land-use sector' as including the following activities: agricultural land use (soil carbon management as well as activities that address food production processes and other drivers of deforestation); management of pastoral land, grassland and peatland; sustainable forest management; afforestation; reforestation; and avoided deforestation and degradation (or, REDD).¹

IETA believes that all land-use activities should be eligible for the generation of market-based emission reduction and sequestration credits. For the purpose of jump-starting activities in this critical sector, IETA supports the proposal that CDM eligibility be extended to these activity types.² For the purpose of addressing, with lasting impact, emissions and sequestration in this sector, however, we believe that the creation of a mechanism devoted *solely* to land-use activities would be the best approach. The provision of incentives for the improvement of land-use practices under a single framework is necessary to incentivize and facilitate a move to rational land-use planning overall and thereby help alleviate the drivers of deforestation. The current practice of separating activity types into artificial groups is detrimental to the effort to permanently reduce emissions and enhance sequestration through land use.

To enable forest nations to benefit from such a mechanism, IETA believes that the establishment of such a new market-based mechanism must be combined with efforts on the part of the public sector to ensure market readiness. IETA believes that public sector funding should be made available in the period from 2009 to 2013 for efforts aimed at capacity building, institutional development, and the establishment of MRV systems.

The credits issued for activities in the land-use sector, through the CDM as well as a stand-alone mechanism must be permanent, equivalent and fully fungible with all other compliance credits.

tCERs and ICERs must be abolished. Temporary crediting has been a crippling disincentive to investment in this critical sector. It seriously discourages the flow of finance by inhibiting full commoditization and attaching an unjustified stigma of weak environmental integrity.

A buffer approach should be developed to ensure permanence of the emission reductions and sequestration achieved.

Quantities of credits for carbon sequestered through project activities should be reserved for cancellation in the event of a reversal of the GHG removals achieved. The Voluntary Carbon Standard's buffer approach should be utilized as an example for the development of a buffer approach for the CDM.

In addition, IETA also advocates for the development of other cost-effective and environmentally strong options for the management of impermanence. In particular, IETA urges the Parties and the private sector to consider and work towards the development of insurance products to fulfill the same role as buffers in the case of reversals.

IETA believes that there should be no restrictions on Annex I parties' use of credits issued from LULUCF project activities under the CDM or a land-use sector crediting mechanism.

¹ IETA also believes that appropriate incentives should be provided for managing emissions from long-term harvested wood projects, but we do not have any specific proposals to put forth at this time.

² It is crucial, however, that there be clearly established arrangements for the transition of land-use projects from the CDM to a new mechanism and that such a transition be set to occur as soon as possible, and definitely before 2020. Projects that have begun under the CDM must not encounter discontinuity in their crediting and must remain eligible for crediting throughout the entirety of their pre-determined crediting period.



Include Carbon Dioxide Capture and Storage (CCS)

IETA believes that CCS activities should be eligible under the CDM and that Annex I Parties should be able to use CERs issued from such project activities to meet their emission reduction commitments under Article 3, for the second commitment period. IETA believes that the Parties should recognize that CCS entails a long-term investment, and for that reason, the modalities and procedures of CCS projects under the CDM should provide a crediting period comparable to its nature.

In IETA's view, CCS meets the objectives and criteria of the CDM and supports the ability of developing countries to contribute towards the UNFCCC's ultimate objective of stabilizing atmospheric GHG concentrations. IETA believes that the CDM is capable of helping to incentivize critical, cost-effective CCS opportunities that reduce the CO₂ emissions arising from some forms of power generation and a wide range of industrial processes² (e.g. ammonia, cement production, gas processing - including liquefied natural gas production for export markets). For this reason, the eligibility of CCS projects would undoubtedly lead to the expansion of the CDM to previously under-represented host countries, thereby improving regional distribution.

IETA believes that tackling the challenge of climate change requires such significant effort that no technologies should be overlooked or restricted from participating in the carbon market without very careful consideration.

Various technological, methodological and legal concerns have been expressed in relation to the potential inclusion of CCS in the CDM. IETA has previously addressed these concerns in a submission to the UNFCCC's SBSTA and hopes to contribute further to the debate in the future. The submission can be found here: <http://unfccc.int/resource/docs/2008/smsn/ngo/021.pdf>.

New Flexible Mechanisms

IETA urges the Parties to carefully consider the complex needs of the new flexible mechanisms currently under consideration in the post-2012 negotiations before assigning their management to the CDM Executive Board. While enthusiastically supportive of efforts to scale-up the UN flexible mechanisms, we have serious concerns about the ability of the CDM Executive Board and its support staff to successfully manage a significantly expanded CDM, given the constraints of the current governance structure. IETA has proposed in-depth reforms to improve the management systems and governance structure of the CDM in *IETA's State of the CDM 2008* report (available at www.ieta.org), as well as in our recent submission to the CDM Executive Board in response to a call for input on possible improvements to the efficiency of the CDM (available at cdm.unfccc.int). We believe that the reforms contained therein will prove critical to the CDM's ability to manage even an expansion of its current project types, i.e. "traditional" and "programmatic" CDM.

Sectoral Crediting of Emission Reductions below a Pre-Established Target

IETA welcomes the further development of the proposal to establish sectoral crediting of emissions reductions below a previously established no-lose target and is optimistic about the possibilities of expanding the carbon market and impacting the emissions baseline of developing countries in such a systematic way.

It is IETA's strong view that a sectoral crediting mechanism will be unsuccessful unless there is clear assurance that the private sector entities involved will be rewarded with a reliable economic benefit. Credit issuance to government bodies without pre-determined, credible arrangements to transfer economic value to private sector participants will create unacceptable political risk for private sector actors.



Further, IETA believes that a sectoral crediting mechanism should be supervised by a dedicated body constituted by the CMP and operating under its authority, and should remain outside the authority of the CDM Executive Board. IETA cautions that many unanswered questions remain as to how such a sectoral crediting mechanism would function in practice, and

how the credits issued through it would impact the international carbon market. Please see the box to the side for elaboration.

New Flexible Mechanism Concerns

Much work has yet to be done on how to bring the proposals for sectoral and NAMAs crediting mechanisms to the level of logistical specificity necessary to understand the roles of the different parties involved and the financial flows between them. IETA is considering these roles and flows in our current post-2012 project. IETA is concerned about the following:

- the need to ensure that the supply of credits from these mechanisms does not greatly outstrip demand,
- the current availability of data and the need to develop independent MRV systems,
- the need to establish modalities and procedures to determine additionality and set crediting baselines,
- the need to provide a credible signal to businesses that such an opportunity will become available in the near future.

Crediting on the Basis of NAMAs

In line with IETA's support for the development of market-based tools to incentivize emission reductions, we are highly interested in the development of crediting based on nationally appropriate mitigation actions (NAMAs), as a complement to the existing mechanisms. As with sectoral crediting, a number of concerns remain unaddressed, however. Please see the box to the side for more details.

If introduced, IETA believes that such a NAMAs crediting mechanism

should be supervised by a dedicated body constituted by the CMP and operating under its authority. It should not fall within the purview of the CDM Executive Board.

Encourage the Development of Standardized, Multi-Project Baselines

IETA enthusiastically supports the development of standardized, multi-project baselines. IETA believes that the current approach to establishing baselines causes insurmountable difficulties for many project types and in countries with low levels of data availability. It also raises costs unnecessarily for all projects and results in fewer projects developed and less equitable regional distribution.

IETA believes that the CDM Executive Board should designate independent bodies, multilateral in nature, to define standardized baselines for specific project activity types and specific sectors or sub-sectors under the CDM. They should establish parameters - including benchmarks - and procedures and make them available for optional use by project participants and designated operation entities. There must be consistency in how the baselines are created, and IETA believes that the Cement Sustainability Initiative should serve as the model moving forward.

The development of standardized, multi-project baselines should be embraced as a key element of system-wide improvement to the CDM's efficiency and effectiveness.

In the course of the development of standardized baselines, IETA believes that the entity undertaking this task should work closely with experienced project developers through, for example, workshops convened for the purpose of defining and designing such parameters and procedures.

IETA supports the idea that project developers should have the choice to forgo the use of a standardized, more-conservative baseline, if they prefer to undertake the additional work and bear the additional cost of establishing a unique baseline for their project activity. IETA also believes that existing projects should be able to choose whether they prefer to continue using their unique baseline or switch to a newly-established standardized baseline for their project type after the end



of their current crediting period.

Development of Positive or Negative Lists

IETA strongly advocates for the creation of positive lists as a means to automatically assess the additionality of some project activities. It is IETA's view that ensuring environmental integrity will be a simpler process, and will entail fewer transaction costs for all entities involved, if positive lists are created for some project activities. Indeed, IETA believes that the development of such lists should be made a priority by the Parties as soon as possible. Like with the introduction of standardized baselines, IETA believes that the current approach to assessing additionality causes extreme difficulties for many project types and in countries with low levels of data availability, and it raises costs unnecessarily for all projects. Due to project eligibility uncertainty, the current approach also results in fewer projects developed and less equitable regional distribution, as investors and project developers become increasingly less willing to risk time and money on the development of projects that may ultimately not be approved for registration.

Criteria for the creation of positive lists could be based on (1) the primary technology employed in the project activity, (2) the host Party of the project activity (due to certain technologies being common practice or facing different barriers in some countries and not in others), and/or (3) the scale of the project activity (small-scale or large-scale). IETA believes that, given general direction by the Parties, the SBSTA or a body of experts created solely for that purpose should be tasked with defining the specific criteria for categories of project activities for inclusion in a positive list. The entity chosen should also be tasked with deciding an appropriate procedure for the necessary periodic review of these lists over time.

IETA, supported by its many member companies, would gladly contribute to the work required for list development and review. IETA believes that registered project activities of a project type that is removed from the list should be allowed to complete the full number of crediting periods allowed, in line with the idea that retroactive decision-making should not affect the eligibility of previously registered projects.

For those project types that do not lend themselves to placement on a positive list, IETA urges the Parties and the CDM Executive Board to consider the creation of a two-step process whereby project developers may apply for and receive a CDM registration eligibility determination in advance of significant investment.

The CDM should be concerned with providing positive incentives, not barriers to entry.

IETA does not call for the creation of negative lists for the CDM. This position reflects IETA's view that meeting the challenge of climate change calls for the widest possible range of emission reducing technologies in the market. If project developers choose to do the work of proving additionality and establishing a crediting baseline for a project type not included on a positive list, IETA believes that their submission should continue to be considered for registration.

Differentiate the Eligibility of Parties through the Use of Indicators

IETA does not advocate restricting the eligibility of Annex I Parties to the use of CERs issued through the CDM for the purpose of compliance with commitments under the Kyoto Protocol, beyond the current rules and regulations.

IETA does not have a position on the possible differentiation of non-Annex I country eligibility to the CDM but rather encourages the Parties to make decisions on differentiation based on the movement of Parties or sectors from one market-based mechanism to another. For example, some developing country Parties, or some sectors in some developing country Parties, may be made ineligible for the CDM as a factor of being shifted to a new market-based mechanism, such as, a sectoral no-lose target with crediting below a pre-established baseline.

IETA strongly advocates against disqualification from the CDM of sectors or host Parties not



covered in such an alternate scheme, and believes that all registered projects should be able to complete all of their remaining crediting periods.

IETA calls for the establishment of a grace period between the decision to transition a country or sector to a new mechanism and the end of eligibility for CDM projects based in that sector or country. Such a grace period is necessary to provide investment security for projects that were already commissioned or were under development - in good faith - at the time that the decision was made for such a move.

Finally, IETA believes that all types of credits that have been created through the CDM should be considered eligible for use in all Parties to the Kyoto Protocol and fully fungible with all domestic compliance units. Parties should not differentiate the eligibility of CERs due to project type or host country. Emission reductions provide the same benefit to the atmosphere no matter where or as a result of what activity they are achieved; their true value should be reflected in the their CER price.

Improve Access to CDM Project Activities by Specified Host Countries

While keenly aware that the geographical distribution of CDM project activities is a significant concern for many Parties, IETA remains firmly against the introduction of measures that seriously distort the market or lead to the registration of projects with questionable environmental integrity.

IETA supports the move to introduce an amended definition of small-scale project activities for CDM project activities in LDCs and SIDS, provided that due concern is still given to issues of environmental integrity.

Concerns for the environmental integrity of the CDM leads **IETA to the conclusion that it would not be appropriate for projects from a select group of host countries to be exempt from the requirement to demonstrate additionality,** apart from those project types specifically included in positive lists.

Rather than advocate for further special provisions for certain host countries or project activities as a means

to enhance regional distribution, IETA strongly urges the Parties to direct the CDM Executive Board to strengthen and consistently enforce the distinction between small-scale and large-scale projects. Small-scale baselines and monitoring should not require extensive historical data or expensive monitoring. The use of default values or emissions factors, such as those provided by the IPCC, should be encouraged. Small businesses, government entities, and organizations in LDCs have serious difficulties obtaining data and undertaking extensive monitoring, for reason of cost and availability, yet IETA has observed that the current approach to assessing small-scale methodologies and projects does not consistently take this into account. IETA believes, therefore, that the Parties should move to adequately implement the already existent special provisions before moving to expand those to other countries or project types. The current approach by the CDM Executive Board does not reflect the simplified modalities and procedures originally envisioned by the COP.

IETA supports the proposal that the CDM MAP or the GEF fund the monitoring/reporting and if deemed necessary also the validation, verification, and certification of small-scale project activities in LDCs and SIDS. We also suggest that the same treatment be applied for some key project types, such as those that incorporate solar technologies.

For countries that have very low emissions baselines, and therefore find it difficult to develop viable CDM projects, IETA believes that an alternative baseline should be considered for that country. For example, in the case of countries that have very low electricity grid emissions factors because they import a large proportion of electricity from neighboring states, an alternative baseline could substitute a regional electricity emissions factor in place of a national one. IETA understands that such an approach would require an amendment to current CDM modalities and procedures for the claim of emission reductions, but we believe that a small change in this regard could lead to significantly more viable projects in these countries.



Promote Co-Benefits by Facilitative Means

IETA does not support the inclusion of co-benefits as criteria for the registration of project activities, as doing so would be likely to add additional costs and uncertainties into the project development process, further pushing project developers and investors from an already uncertain market. Moreover, the determination of which co-benefits to consider and how to measure them has been discussed before and rejected by the Parties. For these reasons, IETA supports the decision that the determination of sustainable development benefit remains under the authority of the host country.

IETA would propose, therefore, that the DNA forum take a more active approach in guiding the DNAs through the task of determining sustainable development benefit criteria for their country and judging when it has been met. In addition, IETA suggests that a joint workshop be held where DNAs and industry representatives can discuss ways that the DNAs could assess and encourage greater sustainable development benefit of project activities without alienating the private sector.

Introduce Multiplication Factors to Increase or Decrease CERs

On principle, IETA does not advocate the use of multiplication factors to increase or decrease CERs issued for specific project activity types. IETA believes that the choice of such factors would likely be arbitrary, as it would be difficult if not impossible to agree such factors in any objective way. Even more, the use of multiplication factors detaches the monetary benefit provided by a project from its climate change benefit. The principle that underlies the carbon market, which is well supported by science, is that a ton of carbon reduction is worth the same the world over. IETA believes that the CDM should reflect that simple fact and reward project participants for the service that they deliver.