

Holstebro, Denmark
January 20, 2012

The Chair and Members of the CDM Executive Board
c/o the UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D-53153 Bonn
Germany

Subject: Panel for Policy Dialogue on the Clean Development Mechanism

Dear Sir/Madam:

As an observer and participant of the CDM and JI, we (Grue + Hornstrup A/S) have witnessed both the positive and negative sides of the growth and expansion of the CDM over the past decade. In taking the past history into account of our own experience, plus the foreseen future of the carbon markets, we would suggest that the Panel on Policy Dialogue on the Clean Development Mechanism address the following issues:

(I) External forces affecting the CDM

- One of the main external forces facing the CDM is the current and mid-term future international negotiations under the UNFCCC. This is a combination of both National and Block (Nations) interests. But there are some common global forces which will impact the CDM in the short and long term. These being:
 - Short term economic decline (lack of investments in projects and lowering of value of CERs)
 - Long term economic growth (causing expansion of new technology use and new types of industry/services)
 - Rapid rise in energy costs (making new technology use more beneficial)

These forces will likely influence basic concepts of the CDM. One of which being the concept of additionality (as formed today). For example, if energy costs continue to rise at the current rate, then in a short period of time there is a risk that many CDM project types will no longer be able to prove additionality based on economics and possible barrier analysis. Is it time to address a parallel tool for emission reduction integrity such as Best Available Technology (BAT) standards.

- Common forms of other offset standards and regulations such as International Standards Organization, Voluntary Carbon Standard, Climate Action Reserve...etc. can diminish the value proposition of the CDM. Thus, an integration mechanism could be advisable for the future, where the CDM begins to find methods for integration with other offset standards and regulation, or vice versa.

(II) Future challenges it can be expected to face

- A major foreseen challenge within the CDM relates to the ability of DOEs to perform their contracted tasks in a timely manner. This challenge relates to both the capacity of the DOEs and the regulation of the DOEs.

The capacity issue will be of utmost importance in the coming years, as our experience with many project indicates it is taking DOEs an excessive amount of time (in many cases over one year) to complete a validation/verification of a CDM project. This is mainly due to DOEs lack of capacity to address projects participant responses in a timely way (often taking several months). This challenge will grow in magnitude as more verifications begin to take place, as large and medium volume projects will likely go under verification more than once a year. Thus the net volume of capacity requirements of DOEs will be greater.

From the start of the first CDM projects in 2003 until now the regulations (of the EB) faced by DOEs have grown several magnitudes of dimension. Though this has brought more physiological



integrity to the CDM, we are uncertain about the significant measurable change in quality. It is our current impression that current regulations are strong enough when it comes to the level of experience and qualification of DOE team members, but further regulations do not have enough flexibility to allow the same qualified DOE team members to use their full professional judgment (thus having to refer constantly to the MP/EB for guidance and clarification). This challenge will only become more problematic as new types of methodologies (sub-sectoral types) are introduced within the DOE sphere under validation and verification.

(III) Opportunities and possible directions for the future

- A major opportunity for the future of the CDM is to be independent of the framework of the Kyoto Protocol (and any one specific future international agreement), and focus on being an international standard for project/sector based emission reductions which can be accepted by various compliance structures. In this context the CDM should still be placed under the UNFCCC, but have a flexible linkage mechanism to various national and international compliance structures (jointly or individually). The focus could be to supply offsets to an ETS, direct carbon offsets schemes, or even carbon taxation schemes. In principal this would allow the national and international compliance structures to choose (cherry pick) which types of projects, methodologies, and sectoral schemes they will allow into their compliance structures.

We do have faith that the CDM can be molded into a wider reaching mechanism which can be utilized far within the foreseeable future, and support the concept of the Panel on Policy Dialogue on the Clean Development Mechanism. Of course we will be looking forward to the final outcome of the Panel expected by September 2012.

Sincerely

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