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1. *What do you consider to be the mostly likely scenarios for the future development of the carbon market, and for the role of the CDM and the UN within these?*

The global carbon market under the regulated oversight of the UNFCCC will be getting smaller in the near term future, both as percentage of global emissions (where it will be substantially diminished) but in nominal terms as well. However, this will be partially offset by a rise in carbon (and carbon-reflective) markets that are not embedded in the UNFCCC process. It can be reasonably hoped that the various policy initiatives to mitigate carbon rejoin into a larger global market at some point in the future. This trajectory presents both a threat and opportunity for the CDM.

California, Australia and British Columbia are among the most interesting places in project based emissions management right now – and interest around docking into the CDM in these jurisdictions is tepid at best. When global thought leaders like Disney, News Corp, Google and others look to purchase emission performance, the CDM is dismissed. Chinese cities are developing ET systems, but again to my knowledge, there is zero interest in using the CDM to qualify importing project based credits. Major emission mitigation asset classes know that the CDM can hold no value for them because of both politics and systemic shortcomings. Instead, other systems – the VCS, ACR, CARB, the Gold and Panda Standards to name several - are emerging to serve new market segments. **Overall, they are growing and the CDM is shrinking. Whether CDM likes it or not, the CDM is part of an overall business ecosystem and that is the current market dynamic. CDM is not a monopoly anymore - and will be even less so after 2012.**

The CDM's future role is therefore very much in flux and depends largely on how it adapts to new realities over the coming year or two. The state of the international negotiations around a KP successor agreement with binding numerical targets are likely hopeless. As such that **there is a very cogent argument that the CDM has already reached its peak of influence**, and will now winnow down into a comparative backwater. That would be a very sad fate for a concept so compellingly elegant and rich with potential - and at one time wildly popular – as the CDM.

From an atmospheric management perspective, the only thing that matters is moving capital and technology into low carbon infrastructure, as quickly and efficiently as possible, across as much of society as possible. This is what creates both emissions mitigation and sustainable development. Projects and countries should find ways to compete to have the most convivial markets for that to occur. **If it can be cannot be reasonably demonstrated that the CDM is actively helping that outcome, it must be thoroughly re-examined as a tool.** We do not have time and resources to waste.

2. *What key opportunities do you see for the CDM to make a stronger contribution to combatting climate change and promoting sustainable development?*

The CDM should stop thinking of itself exclusively as a tool of a UN Convention. It should start thinking of itself as a major player in a multidimensional emissions management market. The Board's mandate ultimately in this uncertain period should be twofold;

1. Seeking to both grow the overall market for project based emissions performance (by helping increase demand from a variety of sources) and
2. Win as much market share as possible for the CDM (vs. other systems) within that growing market

In project based emission mitigation, the **CDM has an enormous technical and political lead over EVERYBODY** and an order of magnitude greater experience and capability than any other system. That the CDM is not the default system for other jurisdictions speaks volumes about its perception in both the commercial and political marketplaces. Project based mitigation is a powerful tool, but only so much as it is used by institutions demanding

it. **From an overall public policy perspective, the CDM should be both the loudest advocate and best example of project based emission mitigation.** If overall demand can be created for 2 GT/year of project based emission reductions (out of a 30B tonne global emissions economy) that is a huge success and will mean that this tool actually mattered in the fight against climate change. The UNFCCC CDM should be the leading advocate for that to occur, via its own mechanisms, but also open to the emergence of alternative demand drivers and supply processes as well. **The emergence of other systems could allow the CDM to redefine itself as an intellectual and policy leader** - as opposed to its current reputation as a bureaucratic morass that poorly understands its own responsibilities as monopoly regulator of monetized international GHG mitigation value.

3. What do you see as the key challenges facing the CDM and the Executive Board in making this strengthened contribution?

The 1992-1997 negotiations emerged with a rationale to kick-start a sub-global carbon market, one that mixed aspects of both emission allowance and baseline and credit systems. The aim was a framework that would steadily grow – over decades - the use of carbon pricing across ever more geographies and sectors. That trajectory appears to be off the rails. That means that the costs - both direct and opportunity - borne in setting up and running the CDM system over the past ten years will likely be amortized over a far smaller base of eventual GHG benefits, unless something is done. **Put succinctly, there is a substantial risk that the quantum of effort devoted to date to the CDM is nothing more than a expensive dead end.**

While the political challenges around broadening hard emission caps (which would drive CDM demand) are quite obvious, the other half of the problem is more challenging. The CDM process is viewed by most parts of the CER ecosystem as arcane and obtuse, while the Board and Secretariat are still largely viewed as bureaucratically hopeless. In the broader low carbon development world (such as the Silicon Valley's cleantech ecosystem), opinions on the CDM and its management range from necessary evil to outright irrelevance. **Whether such assessments are right or wrong is – frankly – immaterial. The problem is that this represents the opinions of your most important potential stakeholders.** In business terms, this is a serious public relations issue, particularly when you think about CDMs position in terms of trying to both build overall market size and maintain relative market share in a dynamic policy environment.

It cannot be denied that it is CDM's execution and behavior that draw the most consistent exasperation from across the spectrum of the emission market world. However is doubtless unfair to exclusively aim criticism at the EB/Secretariat, given that so many operational aspects merely reflect outcomes that are pre-ordained by CMP guidance. It follows that a further part of the long term solution needs to be to radically reorient the process and substance around delivering the annual CMP guidance. Upon sober reflection, the notion that the pre-eminent global regulatory agency in low carbon development reports to – and receives orders from - a ever changing cast of characters who only focus on CDM issues for a couple days every December is depressing simply on the basis of mechanics, let alone content. Imagine if national environmental agencies got only 3 days a year to interface with their guiding legislation and legislators

In that light, it should be pointed out that many EB members have secondary roles as national negotiators and are often deeply involved in negotiating the annual CMP guidance. This simple fact certainly boosts the perception that **this process is deeply insular and rife with conflicts.** Moving that CMP guidance process from a purely political body to a more scientific and technical assessment body might be a start.

4. Overall, if you could make three suggestions to the Executive Board, what would they be?

First of all, the Executive Board needs to get over the delusion that what it is doing actually matters, in regards to overall emissions volume or atmospheric chemistry. **The total emissions mitigation the CDM has achieved since Kyoto would fit into the error margin of the error margin of global emissions since that time.** The CDM itself will

have zero impact on the rate in which our atmosphere progresses from 375ppm to 450ppm and beyond. CDM's cumulative performance of emission mitigation is but a fraction of a bad season of Indonesian or Siberian wildfires or the delta of annual oceanic carbon absorption between an El Nino versus a La Nina year. **The CDM's role is to accelerate global uptake of technologies and capabilities that promote emissions mitigation and sustainable development – not save the atmosphere.**

Secondly, it cannot be denied that staggering amounts of transaction costs – well into the billions - have been spent on proving and disproving marginal tons of reductions across almost every asset in the global UNFCCC CDM portfolio, realized and potential. **Given the scale of the climate challenge, this is a waste of scant resources.** In most project types, there is no "right" answer about individual project additionality and no "right" assessment of any particular baseline coefficient analysis. There are opinions from a particular set of experts that that are selected and subsequently enshrined. It should be a reasonably fair representation, but in no way shape or form is it ever "right", in the way that a math problem is right or wrong. It is "right" only because it is politically accepted by the EB as reasonable representation. It is not wrong either, but in no way should it be confused as factually accurate.

Do not be mistaken –reductions used to offset politically agreed regulatory requirements must have integrity. **But integrity can be achieved by being statistically deeply conservative on an asset class basis, instead of relying on deep dive data granularity and analytic nuance on a project by project basis.** Proponents should not have to add in a "guesstimate" on the regulatory process's impact on likelihood, timing and quantum of forthcoming emission reductions. That uncertainty – which continues today - means the vast majority of prospective CDM revenue flows cannot be forward financed. That means from the perspective of a project developer seeking beneficial financing, CERs relevant future value is deeply reduced, often to zero. Which frankly kills the whole point of the CDM.

Substantial segments of the asset classes needed to turn the emissions trajectory – in energy generation, end-use efficiency and land use - should be pre-qualified, with global or regional baseline coefficients simply assigned by the Executive Board. In any earliest prefeasibility study, a proponent should know that if an asset produces X GWh, it will earn Y CERs. Automatically. While the CDM can guarantee neither actual project performance nor what such performance will be worth in the market, it **must be able to guarantee upfront the emission mitigation coefficient that asset performance will garner.** The asset must indeed perform, but that is a different question. Setting that kind of standard should be viewed as a public good - and become a core output of a renewed CDM EB and Secretariat. That way, the emission project development community can spend more of its resources identifying, financing, building and operating mitigation projects - and less resources going through the documentation acrobatics of the CDM.

Lastly, what the Executive Board should focus more concretely on its incredibly positive role in building a global emission mitigation culture. As discussed earlier, from emissions management, economic efficiency and atmospheric chemistry perspectives, the CDM is quantitatively irrelevant. **The undeniable, qualitative achievement of the CDM is the tens of thousands strong cadre of emission entrepreneurs that have emerged in the last ten years, ranging from gritty start-ups to divisions of Fortune 50 energy, finance and industrial behemoths.** That cadre has sought out mitigation opportunities across the entire spectrum of the world's economy. This is testament to the elegance of the CDM notion and the urgency around which many talented people are driven to engage positively with the climate crisis.

Losing any significant momentum of the collective IP that has been developed these ten years would be a disaster for long-term emission mitigation efforts. While the Kyoto level drivers for emissions performance are lagging, the **Board and the Secretariat should seek ways to support and champion these capabilities, by promoting their interface whatever domestic, regional and voluntary policies emerge.** Whatever the macro or micro political contexts it operates within, CDM's goal going forward must be promote the continued use of the intellectual property, execution capabilities and entrepreneurial culture around emissions mitigation that it has catalyzed in the last decade.