

16 January 2012

To: CDM Policy Dialogue Panel (by electronic submission)  
P.O. Box 260124  
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Germany

### **Re Public Call for Inputs to the CDM Policy Dialogue**

Quimobásicos S.A. de C.V. ("Quimobásicos") appreciates the opportunity to contribute to the CDM Policy Dialogue process. Quimobásicos is a project participant for CDM Project 0151 registered on 14 June 2006 and has had practical experience over the past 7 years of the challenges and opportunities presented by the CDM. We therefore feel well-placed to provide input on the challenges and opportunities offered by the CDM.

One of the most important drivers impacting private sector capital flows towards mitigation action is certainty in the regulatory framework supporting investment. Where great regulatory uncertainty exists the private sector expects a high risk premium on its return. The cost of mitigation therefore becomes more expensive, the more uncertain a regulatory framework is. It is therefore incumbent upon those with responsibility for CDM policy and regulation, including the CDM Executive Board, to minimise regulatory and policy uncertainty to ensure that mitigation action is delivered at least cost.

It is also important to ensure as far as possible, that the rules under which investors make their investments remain constant for the period of their investment. Investors that are concerned about retrospective changes to the regulatory regime typically expect shorter payback periods, in addition to high premiums on investments.

In relation to non-retrospective changes, frequent modifications and amendments to CDM rules have increased the complexity and uncertainty of the approval process for both project developers and Designated Operational Entities alike. This has added to project costs and therefore decreased the number of projects it is possible to economically implement.

Improved regulatory certainty in this context could be delivered by: (i) setting and maintaining clear and consistent policy goals for the CDM and new market mechanisms; (ii) maintaining a rational decision-making process open to stakeholder engagement, (iii) providing an independent decision-maker that gives reasoned decisions which are open to scrutiny and

challenge. Ideally, there should be certain sacrosanct rules and principles that apply to the regulatory process (for example that decisions on individual projects will be free from political influence) which investors can rely upon when making investment decisions.

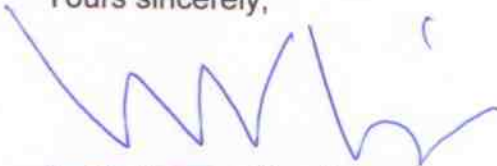
We acknowledge the overriding importance of ensuring environmental integrity. However, the test for whether this integrity has been compromised should be rigorous, objectively applied, based upon established fact and free from political influence. Ideally it should also be challengeable before an independent body.

Where there is an intention to amend CDM Rules and in the context of introducing new market mechanisms, shortcomings in the new regulatory regimes could be avoided or at least minimised, by ensuring that the capacity that has been built through the CDM, is utilised. We look forward to working with the CDM Policy Dialogue to ensure this outcome is achieved.

By way of example, a number of amendments to the AM0001 methodology (HFC destruction projects) have dramatically reduced and truncated investment returns promised to investors. This along with a loss of access to markets for the carbon offsets generated has rendered most of these projects commercially unfeasible. It is our expectation that these arbitrary changes will result in project owners ceasing to operate the HFC-23 destruction facilities, as they no longer receive any economic incentive under the CDM to destroy the waste gas. It is our position that this is a policy failure which would have been avoided had the recommendations in this paper been followed.

We would be happy to answer any questions you have about the above submission and look forward to any opportunity in the future to engage with you.

Yours sincerely,



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