



## Stakeholder Communication Form

(Version 01.0)

*This form shall be used for any CDM-related communication with the UNFCCC secretariat or the CDM Executive Board. All the questions are mandatory unless otherwise indicated.*

*The completed form and any supplemental documents shall be submitted electronically to [cdm-info@unfccc.int](mailto:cdm-info@unfccc.int), or via fax to +49-228-815-1999 or via post to: Sustainable Development Mechanism (SDM) Programme, UNFCCC secretariat, P.O. Box 260124, D-53153 Bonn, Germany.*

### SECTION 1: COMMUNICATION HEADER

*Please provide your contact information.*

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<b>Name of Organization:</b> Project Developer Forum		<b>E-mail Address:</b> sven.kolmetz@pd-forum.net
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<b>Country:</b> United Kingdom		<i>Include country code (e.g. +49-228-815-1999)</i>
<b>Stakeholder Type:</b> Non-Governmental Organization (NGO)		If other:

*Please indicate from whom you would like to get an answer.*

**This communication is addressed to<sup>1</sup>:** Chair of CDM Executive Board (normal track)

### SECTION 2: PROJECT ACTIVITY OR PROGRAMME OF ACTIVITIES (PoA)

*If this communication refers to a specific CDM project activity/PoA, please answer questions in this section (otherwise proceed to Section 3).*

<b>Project/PoA Ref. Number</b>	5-digit# format 01234	If applicable, CPA Ref. Number:	8-digit# format 0123-4567
<b>Project Cycle Stage</b>	Other	If other: Cfl Input Use of CDM	

*If there is no specific CDM Reference Number, please answer the remaining questions in this section (otherwise proceed to Section 3).*

<b>Host Country(ies)</b>	All		
<b>Project/PoA Title</b>			
<b>Technology Type</b>	Other	If other: All	

### SECTION 3: YOUR COMMUNICATION

<b>Title/Subject</b> <small>Maximum 250 characters</small>	comments on Concept Note on options for using the CDM as a tool for other uses
<b>Communication Text</b> <small>Include background, details, and conclusion (unlimited length)</small>	<p>Honorable Members of the CDM Executive Board, Dear Mr. Eduardo Calvo,</p> <p>The Project Developer Forum commends the EB and Secretariat for opportunity to respond to the "Call for input on options for using the CDM as a tool for other uses" as well as on the related Concept Note. This document effectively illustrates the diversity and relevance of the roles that the CDM is already playing as a standardized tool for Private Sector and Stakeholder engagement, as an incentive for tangible emission reductions, as a standardized and recognized mechanism Monitoring Reporting and Verification (MRV) as well as a flexible mechanism that can promote cost effective GHG emission reductions within and between the member states of the UNFCCC and the</p>

<sup>1</sup> In accordance with the "Procedure: Direct communication with stakeholders" (version 02.0), stakeholders may address communications either (a) to the secretariat, in order to seek a fast-track technical or operational explanation regarding the implementation of existing CDM rules, or (b) to the CDM Executive Board, in order to communicate to the Board their views on CDM rules and their implementation, or to seek official clarifications of CDM rules.

future global climate regime that will emerge from the Paris Agreement. We already commented on the importance of the CDM in this process in our position paper that was prepared for COP 21 in December 2016

With this vision of the fundamental role that the CDM has to play we are happy to provide our input:

0) Comments on the Concept Note

We welcome the broad discussion that the EB has initiated to identify and enhance the existing, as well as to develop possible uses of the CDM and its infrastructure in the context of the new CDM policy landscape, of which we would like to highlight how key provisions of the Paris Agreement, as well as iNDCs that have been put forward:

a) Article 6 about voluntary cooperation and the use of ITMOs and the new mechanism

By defining the option of voluntary international cooperation with the possibility of Internationally Transferred Mitigation Outcomes (ITMOs), the Paris Agreement establishes an opportunity to channel financial flows and investments to developing countries where cost effective mitigation opportunities exist, but are not implemented due to the lack of financial. With these opportunities countries that have limited their ambition due to the high cost of domestic abatement can partner with countries that limited their ambition due to the lack of financial resources and other means. As a result, higher ambition in mitigation, adaptation and general sustainable development objectives can be achieved, as necessary to meet the 2 °C target that was defined by the Paris Agreement. Now while it will take time until the rules and procedure for such cooperative approaches are defined, the continued use and the reform of the CDM can at least pave the way to such more comprehensive mechanisms. In fact the CDM already addresses many of the requirements that have been established by Article 6 for the principle of ITMOs, as well as for the new mechanism that shall be created. A key feature here is the capacity to engage the private sector in tangible GHG mitigation at scale.

b) The role of Project Based Mechanisms in a World of iNDCs

When the CDM was created to allow the verification of internationally tradable GHG mitigation units in uncapped jurisdictions, we are moving into a world where all countries will have domestic mitigation objectives. Based on the iNDCs that have been put forward, especially those that establish economy wide and quantifiable targets, an effective reference is created to measure domestic mitigation as well as to account for the effect of international transfers. In this new context, the question of environmental integrity can easily be solved by accurate accounting of international transfers in relation to national inventories and the targets established by definitive NDCs, a concept that was firmly established by the Paris Agreement. If this is warranted, internationally recognized project mechanisms can be used on domestic as well as international levels to leverage the private sector investments that are needed to achieve and exceed the GHG mitigation objectives that have been established. The reform of the Modalities and Procedures both for CDM and JI need to take these new circumstances into account. These mechanisms have demonstrated their capacity to leverage private sector finance and now can be engaged to promote tangible and measurable early action, as well as a seamless evolution towards more comprehensive mechanisms.

While we believe that the CDM in fact had and will continue to have an important role in promoting urgently needed tangible and quantifiable action by private sector as well as to pave the way for incrementally connecting international carbon market, we also see many shortcomings, obstacles and opportunities that will be addressed in the following paragraphs.

Comments on Climate Finance using the CDM and Results-based finance using CERs

As the topics of Climate Finance and Results Based finance are closely related we would like to address them jointly.

In fact, the CDM is a very pure form of Results Based Financing (RBF) as it combines a sound and universally recognized MRV system with the fact that project developers are only rewarded once the the achieved emission reductions as well as other criteria including domestic environmental and social safeguards, have been independently demonstrated and certified. While this ensures a high level of effectiveness and accountability, such a mechanism has limited capacity to overcome financial barriers that hinder the development of projects. Following some comments that may allow to overcome this dilemma:

The fact that CER prices were difficult or impossible to hedge has inflicted substantial financial losses and capital impairments to those investors that trusted in continuity of policies and demand. To be more effective, and motivate investors again, the CDM or any future mechanism that shall promote investment by remunerating tangible and verifiable mitigation results needs to ensure that there is sustainable demand for the generated units. An alternative is to regulate the Emission Reduction Purchase Agreements in a way that they offer tangible price security to investors. An interesting possibility would be to define prices in reverse auctions and thus achieve GHG

mitigation results at least cost, as well as to learn about the true cost of GHG mitigation with different measures and technologies.

Once Project developers have access to such guaranteed prices, and proving other risks for registration and verification can be minimized, the future RBF based carbon income can be anticipated by standard loan agreements by multilateral finance institutions and other actors in climate finance. With such mechanism, the future GHG mitigation results can be securitized in order to leverage private sector finance, unlock GHG mitigation potential in countries where access to private capital markets is limited or where capital is too expensive for GHG mitigation technologies that often have a long term maturity. While such a combination would be of substantial support to private investors and to the countries that urgently need their investment, the financing actors would benefit from the CDMs capacity to engage local stakeholders and to measure report and verify the amount of GHG emissions that was achieved with the combination of carbon revenues and climate finance.

2) Comments on Green bonds using the CDM;

Green Bonds are a concept that was developed for the private capital markets to address investors desire to allocate their funds in projects or activities that contribute to GHG mitigations and that are not exposed to any risk or cost from present or future costs on GHG emissions. While there is a vivid discussion on what can be considered "Green", there is also a legitimate desire to keep the underlying criteria and their use as simple and cost effective as possible to avoid additional costs that would hinder the growth and the effectiveness of the tool. While this means that it is to be avoided that the high scrutiny, complexity and costs of the CDM is applied to Green Bond or Climate Finance instruments, the CDM may still be a valuable tool for project investors to differentiate themselves, as well as to demonstrate the achieved GHG mitigation results on the basis of the CDM's solid MRV systems.

Some of our members in fact report that the use of the CDM to orient stakeholder engagement as well as the diligent project development documentation and external certification has been helpful to also satisfy independent assessments against Green Bond criteria.

3) Comments on CERs for compliance in existing carbon markets (e.g. Korea);

Considering the fact that NDCs and the resulting domestic actions are the fundament of the future global climate regime it is important that countries that wish to use carbon pricing tools such as Cap & Trade or Tax design their system in a way that will facilitate future linking. While direct linking of Cap & Trade systems is a complex process, the indirect linking with project based emission reduction units is relatively straight forward. If a country, such as South Korea, uses domestically generated Certified Emission Reductions as a compliance instrument under a domestic Cap & Trade Scheme, while still allowing the export of such CERs, a unidirectional link to other markets is formed. Now when the country evolves to also accepting CERs from other jurisdictions, CERs might flow back and forth and thus allow the equilibration of market and price imbalances.

Such a mechanism also works in the case of a Carbon Tax as being discussed in Mexico and South Africa . Both jurisdictions discuss a hybrid of carbon tax and offsetting which is easy to implement and offers a broad carbon price signal at a level which is acceptable for the development status and purchase power of these societies. Now in addition, the offsetting component provides a specific focus on the necessary clean economic expansion and attracts investors that will anticipate action to balance their portfolio. Now what is most interesting is that such a domestic carbon tax will define a domestic minimum price level which offers investors an insurance against lack of demand on the international market. Now in case of attractive demand and prices on the international market, part of the emission reductions can be exported and thus an indirect link between the domestic and the international demand is formed.

To make such future indirect linking possible, it is to be avoided that countries use own systems that are not comparable on a global level as this would hinder any future linking. Here the CDM is a crucial instrument as it possesses the international comparability and legitimacy. Moreover we have to envisage a scenario where units for international transfer are adequately credited or debited to the domestic targets of buyers and sellers, as defined by the Paris Agreement. Here again, the CDM could be a universal tool for globally consistent Measurement, Reporting and Verification as well as a mechanism capable of promoting the private sector investment that is needed. Investors know that there is urgent demand for GHG mitigation, but to act they need an assurance that the results of early action before 2020 will be recognized by future domestic and international climate change policies. As more and more actors and countries are stepping forward to endorse the role of the CDM, not only for early action but also as a fundamental element of the future global climate regime, momentum is building once again.

4) Comments on NDC's using the CDM for pre-2020 early action;

Together with the evolution of the CDM, the fundamental principle of the Paris Accord has also evolved such that all countries will now define Nationally Determined Contributions and appropriate domestic policies. While the CDM's original function was to provide flexibility to industrialized nations, it is now being used by developing and newly industrialized countries to promote domestic private sector GHG mitigation investments:

- China's seven pilot Emission Trading Schemes (ETS) use a CDM based domestic crediting mechanism to transfer the ETS price signal to new installations and sectors that are not covered by the systems.
- South Korea uses CERs from domestic projects in its ETS and announced that it will "use carbon credits from international market mechanisms to achieve its 2030 mitigation target".
- Mexico and South Africa have drafted legislation to establish a carbon tax that can be offset by CDM carbon credits. Once operational, these schemes are expected to establish a domestic floor price for GHG abatement projects, while investors could still be free to export credits if better prices are offered.

The individual policies of some countries offer a new role for the CDM; as a flexibility mechanism to achieve nationally defined commitments. They are also consistent with two fundamental elements for the development of an international carbon market. First, the definition of domestic demand leads to effective net mitigation that can be measured, reported and verified transparently for national and global stakeholders. Second, the definition of adequate NDCs is equivalent to emission caps that can act as references for international transfer and accounting of mitigation units. The Harvard Project on Climate Agreements concludes that the Paris accord can facilitate such international linkage with the definition of adequate rules.

In a scenario where units for international transfer are adequately credited or debited to the domestic targets of buyers and sellers, the CDM could be a universal tool for globally consistent Measurement, Reporting and Verification as well as a mechanism capable of promoting the private sector investment that is needed. Investors know that there is urgent demand for GHG mitigation, but to act they need an assurance that the results of early action before 2020 will be recognized by future domestic and international climate change policies.

5) Comments on Increasing emission reduction commitments for the Doha Amendment (the second compliance phase of the Kyoto Protocol);

To limit climate change to 2°C at least cost, gradual mitigation in industrialized countries and disconnecting the emission pathway from economic growth in emerging and developing countries are key priorities. To meet these challenges, increased ambition for mitigation in the short term must revive carbon markets to assure continuous private sector engagement and international cooperation. In parallel, the fundamentals for a broad, economically efficient and balanced global agreement, where all countries take responsibility under consideration of their individual capability, social necessities and development needs, must be defined and implemented without delay.

A fundamental element for any effective regime is to recognize that emerging and developing countries need to expand their economy and address the essential needs of their population. Without an adequate global framework to support, finance and implement the most sustainable technology mix, rapid escalation of GHG emissions in these countries will continue as the development of sub-critical GHG intensive installations is a result of capital constraints and other more immediate social demands. Likewise it is fundamental to understand that industrialized countries need time for gradual reform of their existing GHG intensive energy infrastructure. Effective global carbon market mechanisms, supported by non-market policies which create enabling environments, address both realities as they engage the private sector in supporting immediate clean growth in emerging and developing countries and promoting a smooth transition in industrialized nations. This approach reduces the economic burden and improves the development prospects for all members of the global community.

Minimizing the build-up of GHG intensive infrastructure before 2020 is not only paramount to safeguard our chances to limit climate change to 2C, but also to build trust and experience for the future climate regime and to avoid rapidly escalating future costs of GHG mitigation. To ensure that countries and the private sector can engage in swift and comprehensive action now, all available global and national mechanisms, such as the CDM, NAMAs, and climate finance have to be made available. Furthermore, the recognition and eligibility of the mitigation results under the forthcoming climate regime and for meeting future commitments have to be warranted to catalyse anticipative investments. The smooth interaction of mechanisms and the tracking of efforts and results must be ensured through the definition of the Framework of Various Approaches.

If we are capable of building on these existing mechanisms to promote early action, this will not only allow us to perpetuate and expand existing capacities and competencies, but also build trust to develop a more effective, efficient, transparent and reliable global carbon market mechanism for the post 2020 regime that offers broad coverage, low transaction costs and addresses the needs of industrialized, emerging and developing countries.

We emphasize that the combination and seamless evolution of mechanisms to minimize the cost of mitigation today is not only essential to enable all Parties to make increasingly ambitious

	<p>contributions, but also reduce the cost of mitigation in the future: Continuous failure to prevent the ongoing GHG intensive development in emerging and developing countries is leading to technology lock-in that compromises the global emission trajectory for decades to come and reversal will imply large expenditures and stranded assets. If such high future costs cannot be avoided we fear that they will make future climate diplomacy even more challenging than it is today.</p> <p>Futher more: <a href="https://www.pd-forum.net/sites/default/files/pdf_uploads/601358cf702e138c16de3764790f5214.pdf">https://www.pd-forum.net/sites/default/files/pdf_uploads/601358cf702e138c16de3764790f5214.pdf</a></p> <p>6) Comments on Using the CDM for the ICAO Global Market-Based Mechanism.</p> <p>ICAO and IMO are supra-national bodies that can promote international cooperation and trade as fundaments of sustainable and equitable economic growth. In line with this vision, ICAO has already agreed on GHG neutral growth as of 2020. This commitment will be met, at least in part, through energy efficiency and sustainable biofuels. It will also require the use of market based instruments. ICAO is analyzing various options such as the purchase of emission allowances from established Emission Trading Schemes, voluntary and REDD+ based mechanisms as well as the CDM as an existing tool with distinct advantages:</p> <p>The recognition of CDM Certified Emission Reductions by the UNFCCC, as well as by the host country, ensures a high level of legal certainty and avoids double counting that would inevitably occur with mechanisms that are not recognized or accounted for by the host country or other relevant actors.</p> <p>The target of carbon neutral growth exposes ICAO's members to significant uncertainty in terms of volumes and long-term price increases. While the CDM has demonstrated it is capable of rapid response to demand for emission reductions, it's investors remain vulnerable to price decay. A partnership between project investors and airlines would eliminate price risk for both sides.</p> <p>While societies of industrialized countries prefer domestic action over capital flows to other countries, airlines and shipping operators take a vital interest in the prosperity of their home markets. This interests are well aligned with social and economic development objectives of developing countries.</p> <p>The demonstrated ability of CDM investors and developers to ensure stakeholder engagement and to demonstrate social and environmental co-benefits, is a valuable advantage for the aviation industry, which seeks to ensure positive engagement with its clients and home markets.</p> <p>In summary, we believe that the ICAO and IMO have a vital interest in ensuring the continuity of the CDM as it is an essential tool that can translate their environmental commitments into tangible early action that is aligned with their strategic necessities. Nevertheless, a decisive push from ICAO and IMO also depends on the continuity of the CDM and on the establishment of an adequate framework for tracking and accounting of international transfers of mitigation outcomes.</p> <p>Kind regards,</p> <p>Dr. Sven Kolmetz Chairman, Project Developer Forum</p> <p>Philipp Hauser Co-Chair, Project Developer Forum</p>
<p><b>Supplemental Documents</b> <i>If applicable, list the title(s) of any attached file(s) or link(s)</i></p>	
<p><b>This communication may be made public</b></p>	<p>Yes</p>

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**Document information**

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<i>Version</i>	<i>Date</i>	<i>Description</i>
01.0	02 March 2015	This form supersedes and replaces the following: <ul style="list-style-type: none"><li>• F-CDM-RtB: <i>Form for submission of Letters to the Board</i> (version 01.2)</li><li>• F-CDM-RtB-DOE: <i>Form for communication on policy issues initiated by AEs/DOEs</i> (version 01.1)</li><li>• CDM-RtB-DNA: <i>Form for communication on policy issues initiated by DNAs</i> (version 01.1)</li></ul>

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