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To Executive board of the UNFCCC
From Sven Kolmetz
Date 03 September 2019
Page 1/2
Subject **EB104 comments on annotated agenda**

Dear Members of the Executive Board,

The Project Developer Forum (PD Forum) is a collaborative association and collective voice of companies and practitioners that are developing and financing greenhouse gas emission reduction projects worldwide. Our members work on a global scale and evaluate opportunities to deploy climate financing and carbon market instruments to accelerate investments for greenhouse gas mitigation and sustainable development.

Following the publication of the EB102 annotated agenda, we would like to take the opportunity for sharing our views on **annex 2** and **annex 4** and would like to put your attention to the **consequences of the upcoming Brexit**.

Comments on Annex 2 (Amendments to version 02.0 of the CDM PS, VVS and PCP for PoA):

We would like to thank the EB for noting our inputs on separate CPA issuance requests according to different PoA DD versions. We have reviewed the 'Amendments to version 02.0 of the CDM project standard, validation and verification standard, and project cycle procedure for programmes of activities' and have some comments in response to the suggested changes.

Firstly, we understand that for CPAs that fall under different PoA periods, it would be more straightforward for monitoring results to be reported separately. We consequently support the EB's rationale and proposal that CPAs included or renewed in different PoA periods and consequently following different PoA-DD versions be monitored separately.

However, we seek clarification as to whether the EB is also suggesting that CPAs which fall under different PoADD versions but within the same PoA period compulsorily be monitored separately? In cases where there are different PoADD versions within the same PoA period, we believe that it should be left to the discretion of the CME whether to monitor CPAs separately or together. There are several situations where new versions of PoADDs are required for changes like boundary or technology expansion, which would not necessitate a change in monitoring procedure. In such scenarios, given the current price of CERs, it would be financially challenging for CMEs to hire consultants and DOEs multiple times merely to fulfil a requirement for separation of monitoring results, when monitoring results for different CPAs can be efficiently and effectively be included in the same report.

Additionally, we seek a clarification on the language, "a monitoring report can only contain monitoring results of the CPAs that were included or **updated** in the same PoA period." This wording does not address the possibility that a PoA DD may be revised multiple times during a crediting period. Our suggestion would be to change the wording to ensure that the CPAs in a particular monitoring report are

linked to the PoA DD version that was used to include/revise the respective CPAs included in the monitoring report.

Comments on Annex 4 (CDM loan scheme):

Following the release of several “*CDM Loan Scheme formal notifications of withholding of CERs*” to the attention of some of our members’ projects or members’ clients projects, we would like to take the opportunity for sharing our views on such practices towards struggling/defaulting project developers who have unfortunately not managed to receive CERs to date.

We had previously commented on the CDM LS repayment terms, systemic level requirements beyond the direct control of the developer affecting loan disbursements and diversification of CER financing in our submission dated 22 August 2016. This short intervention builds on some of our members and associated project developers’ views communicated earlier through interactions with UNOPS.

First of all, the PD-Forum would like to recognise that the CDM loan scheme has potentially played an important role in offsetting transaction costs associated with the development of CDM projects in underrepresented regions (with 63 Loan Agreements covering 29 countries, among which 11 have been new countries to the CDM).

Unfortunately, several projects came short of their initial CDM registration and CER delivery expectations due to various challenges including external issues (no LoA issued over years; no building permits) and force majeure (disasters, conflicts etc.), unexpected operational deviations from methodologies as well as financing failure and decreasing CER price.

Based on their multiple interactions with UNOPS team earlier this year the various stranded projects’ reasons for defaulting seemed well understood and termination/write-off letters were supposedly being processed, as the financial reports of disbursed funds were clear, and the projects will not likely obtain CER and associated carbon revenues anytime soon.

Then recently again, UNOPS sent a new round of aggressive legal reminder to prompt some of those defaulting projects to repay the Loan Scheme they had received, **regardless** of any CERs issuance, unless they can justify that they are not in a financial position to repay the loans (as a condition for write-off), complemented by UNFCCC “CDM loan scheme formal notification of withholding of CERs from CDM project activity”. UNOPS is arguing that (big enough) companies still running should be able to repay even without CER revenues.

On the other side, the defaulting projects were in the belief that such Loan Scheme financial support to registration/issuance was to be repaid in full by the ‘scheduled date’, which was defined as 12 months after first CER issuance, implicitly conditioning these repayments to successful CERs delivery. Furthermore, if the companies could pay back the loan without CER revenues, the additionality of the project would be doubtful. Here, - in our view - the UNOPS is contradicting the rules of the UNFCCC.

For that reason, we kindly ask the UNFCCC to refrain from withholding CER’s issuance on behalf of UNOPS for the above reasons. Only, if there is still a possibility to get revenues from the CDM in the future there will be a chance to pay back the loans. Furthermore, we kindly ask for more understanding of the situation of the defaulting projects. We think the communication from UNOPS is often not appropriate for the project owners keeping in mind that the projects under the loan scheme are those who work in underrepresented countries where there are higher barriers and less experience.

Following the recent delivery of legal letters from the UNFCCC, the PD Forum would like to raise general and specific issues regarding the Clean Development Mechanism (CDM) Loan Scheme:

Generic considerations:

1. The CDM Loan Scheme was set up as a way to support and promote projects in underserved regions but it has over the past years become a significant administrative and financial burden to mitigation projects. In this sense the CDM Loan Scheme has become a barrier and hurdle rather than a benefit or incentive for its targeted recipient projects.

2. The COP/CMP provided a mandate to UNOPS to evaluate projects on a case-by-case basis though there has and continues to be a lack of transparency regarding the criteria that is being applied.

3. Relatedly the PD Forum is concerned that efforts are actively being undertaken by the UNFCCC and UNOPS to continue administrating the CDM Loan Scheme even beyond September 2019. This decision appears to have been made behind closed doors for which no consultation with the loan recipients and/or CDM consultants has been undertaken. This is of concern to us, as given the broader context of the Loan Scheme supporting mitigation activities in underserved regions, prudent use of resources (financial and human) is paramount. We understand that UNOPS and UNFCCC are carefully considering budget expenditure for loan administration in line with diminishing returns¹. Though serious consideration should also be given to CDM consultants and loan recipient time and effort in this regard.

4. The PD Forum is concerned about the damage the CDM Loan Scheme could be causing to the image of the CDM and the UNFCCC among project developers, potentially impacting creditability under the Paris Agreement. Overall as attention and energies focus on the future, through negotiating and agreeing on the provisions of Article 6, we would like to highlight that the relative success of the CDM Loan Scheme in its early days of supporting projects has been in part eroded over the last years. We would strongly advocate for drawing a line under the scheme, extracting lessons learnt and allowing full attention to switch to the opportunities to support the broader goals of the Paris Agreement.

Comments regarding unintended consequences from the “No-Deal-Brexit”

This letter is written in response to the recent publication of the UK Government’s Technical Notice ‘Meeting climate requirements if there’s no Brexit deal’, relating to the UK’s exit from the European Union. We would like to specifically address the topic of continued registry access and implications for CDM projects and programmes and have expressed our deep concerns on this matter to the UK Government. In this letter we would like to ask for preparedness from the CDM EB, and maybe some simplifications in procedures, when developers need to deal with the possible fall-out of the UK’s decision.

Impacts of no-deal:

The situation described in the Technical Note is deeply concerning to us, as practitioners. Despite the UK’s commitment to future climate policy, there is still no actual solution offered to ensure the UK’s climate change registry is available, which will have severe implications for CDM developers. It has been confirmed by DG Clima that the UK registry, which is part of the EU registry system, will cease to operate upon a no-deal scenario immediately (as at today this is expected to be **31 October**). Restriction in access to the registry undermines the ability of industry to conduct business, maintain obligations and carry out investment with certainty. The UK is the Annex I Party to more than 2,000 CDM projects and 38 registered programmes (by far the largest number of any Annex I Parties and representing more than a quarter of all registered CDM projects), representing approximately half of all issued volumes of CERs.

¹ “CDM-EB104-AA-A04 Information note: CDM Loan Scheme: Annual Report”
Paragraph 15: (a) USD 3,394,460 was allocated for the disbursements of loans;
(b) USD 2,224,389 was allocated for UNOPS service charges;

If registry access ceases, assets held in accounts, including units eligible for use, and critical information regarding historic retirements, become inaccessible. Furthermore, CDM projects with a UK LOA wishing to request issuance, become stranded, with associated implications for project counterparts globally, and likely the mechanism as a whole.

Developers' needs:

In order to avoid being left stranded, CDM project developers with a UK LOA will need to open new registry accounts, request new LOAs from other Annex I Parties and submit them to the EB, and agree and submit new MOCs.

Therefore, the EB should expect a very large number of administrative requests to come its way. We hope that the EB will make sure that the administrative resources are available to deal with all these changes. Such workload will not only impact those projects that have a UK LOA, but also all other projects by occupying staff.

We would also recommend that a few simplified procedures are considered, agreed and communicated, for example the EB may consider allowing some of the following options:

- Multiple projects to be updated simultaneously for the same developer.
- A forwarding request to a different account than that linked to the UK LOA.
- A single LoA to multiple projects/programmes.

Conclusion:

While a no-deal Brexit scenario may not happen, the threat to CDM project developers, and the mechanisms in general, of this possibility happening is very real. Therefore, we hope that the EB can agree to take proactive measures to minimize the negative impacts on the CDM. We have suggested only a few possible options that could reduce the amount of administration required to overcome the problems. We hope that the EB will be able to agree some of these options and communicate the proposed solutions to all stakeholders.

We wish to thank the members of the Board for the opportunity to provide our inputs and hope that these are of value to future discussions.

Kind regards,



Dr. Sven Kolmetz
Chairman, Project Developer Forum