



PROJECT  
DEVELOPER  
FORUM



February 28, 2012

***Via Electronic Mail***

Mr. Thomas Bernheim  
Office of Directorate General  
DG Climate Action  
European Commission  
Brussels

**Re: Study on the Integrity of the Clean Development Mechanism:  
Response from the International Emissions Trading Association, the Project  
Developer's Forum, and the Climate Markets & Investors Association**

**Dear Mr. Bernheim,**

The International Emissions Trading Association (IETA), Project Developer's Form (PD-Forum), and the Climate Markets & Investors Association (CMIA) welcomes the initiative taken by the European Commission to study the experiences, performance and integrity of the Clean Development Mechanism (CDM) to date, in the form of a series of briefing papers and a synthesis titled "Study on the Integrity of the Clean Development Mechanism" ("the Study").

All 3 organizations hope that the views presented below will serve as a constructive reader's guide to this and other studies on CDM-related experiences and thus contribute to a balanced understanding of the CDM's experiences this far, including among readers that are unfamiliar with the context, evolution and details of the CDM during the first 10 years of its existence.

By welcoming this Study, and various other current initiatives to take stock of the CDM's merits, shortcomings and lessons for the future, we urge entities that communicate CDM-related observations to clearly distinguish between objective findings based on scientifically rigorous methods and unsubstantiated concerns, to present transparent and solid evidence to support observations wherever possible, to recognize the diversity within CDM project activities, and to avoid generalizations based on isolated examples. We also urge CDM policy-makers and stakeholders to keep these issues in mind when studying CDM's experiences.

**IETA - Climate Challenges, Market Solutions**

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Taking this into consideration, we appreciate that the Study aims to provide “a comprehensive appraisal of the strengths and shortcomings of the CDM” and to include “evidence relating to alleged concerns about additionality, competitiveness and carbon leakage”, with the view of providing a “concise and objective evaluation of each of the key issues, and the potential options for reform” and to “obtain a balanced view on contentious issues”.

Although the Study offers a wealth of useful information and perspectives on the CDM, IETA, PD-Forum and CMIA have some concerns over the evidence presented and argumentation. To avoid unnecessary confusion, misinformation, and unfounded interpretations on the merits and shortcomings of the CDM, we wish to highlight some of the inconsistencies and inaccuracies of the Study and its references, and contribute to a more balanced view of the CDM.

Beginning with the introduction, the Study correctly recognizes that there is “limited empirical evidence” and thus “relies extensively on analyst judgment and stakeholder input” (p. 11). Yet, the language of argumentation throughout the Study leaves even a careful and well-informed reader struggling to acknowledge that the Study’s observations and recommendations are based on judgments and stakeholder input rather than solid empirical evidence. We would have appreciated a more critical tone from the authors towards their argumentation throughout the report, given the importance of the topic in question and the potential bias arising from failing to distinguish clearly between (a) unproved concerns, some of which have become outdated or later proven unfounded, and (b) proven, substantiated shortcomings.

From our perspective, the distinction between facts and claims is not always clear to the reader from the language of the Study. The reader would have benefited from clearer distinctions between formal and other requirements, and proven and unproven performance, for example:

- The CDM’s proven performance against the formal objectives (sustainable development, as defined by the host country, and additional greenhouse gas emission reductions, as assessed by accredited third parties and, ultimately the CDM EB);
- The CDM’s proven performance against further optional expectations (cost-effectiveness, technology transfer, local co-benefits...), some of which are ambiguous or contentious in themselves (e.g. lower sustainable development benefit of end-of-pipe technologies);

- The CDM's proven performance against non-CDM projects of similar types (e.g. CDM-registered hydro project vs. non-CDM hydro project under same conditions); and
- Unproven concerns and merits of CDM (all projects vs. registered projects or project types vs. project sub-types).

As an example, while the Study provided helpful and balanced views on the diversity of hydro project technologies, economics and definitions or sustainable development criteria, the reader would have benefited from having these critical details more clearly integrated into the main text rather than included as mere footnotes.

Given that the Study aims to provide a "balanced view" on the merits and the shortcomings of the CDM, we were somewhat surprised to note that the CDM's merits were summarized in a single page of a synthesis report of 81 pages, much of which focused on elaborating concerns and shortcomings of the mechanism without always clearly distinguishing between unsubstantiated concerns, some of which have been shown to be outdated or later found unfounded, and substantiated, proven shortcomings. Statements like "as the prior sections suggest, the list of CDM shortcomings is a long one" (p. 20) do not contribute to an unbiased tone in the Study.

However, we fully agree that there are many valid concerns and shortcomings related to the CDM even in its current form, and recognizes the need for continuous improvement and reform of the mechanism to ensure and maintain its environmental and social integrity.

IETA, PD-Forum and CMIA would like to point out that some of the CDM's observed shortcomings have been self-corrected by the CDM over time-which can in itself be considered a merit of the CDM. Over time, this self-corrective process has made some of the previously valid concerns over the CDM's integrity redundant. Given the CDM's unprecedented, dynamic learning-by-doing approach (also recognized by the Study on p. 15), studies of the CDM's merits and shortcomings provide only snapshots of the perceived performance of the CDM during a narrow window of time. We would liked to have welcomed a more critical presentation of the findings on the literature of the CDM's merits and shortcomings, reflecting the dynamic nature, self-correction, and continuous improvement process of the CDM. We would have also liked to have seen in the Study the evidence (or lack thereof) presented in the literature to substantiate claims and observations.

A related merit worth pointing out is the CDM's function as a selection mechanism: all CDM projects undergo a complex, elaborate and increasingly standardized (albeit dynamic) *ex ante* and *ex post* evaluation process whereby multiple entities and stakeholders have the opportunity to scrutinize various aspects of each and every project registered under the CDM. Thus, CDM projects represent a scrutinized subgroup of projects of given project types, and observations made about some (non-CDM-registered) projects of the same type do not automatically apply to registered CDM projects. This should be explicitly recognized to avoid making unfounded, unhelpful and unscientific blanket generalizations and extrapolations across project types. We wish to point out that the Study bases much of the claimed shortcomings on a few studies, some of which are quite outdated, and some of which have failed to present concrete examples of wrongly registered CDM projects despite multiple requests by stakeholders.

Regarding the discussion on the CDM's reform and potential for new mechanisms, we welcome the helpful and comprehensive analysis provided in the Study, but would like to remind readers that the design of potential new market mechanisms are still open for debate within the UNFCCC negotiating process and thus, the presumed merits and superiority of potential new mechanisms are neither proven nor automatic, and new approaches will also have to tackle new challenges not applicable to a conventional CDM.

Regarding the concept of additionality, the reader might be confused by the categorization of industrial gas projects as a potential project type for inclusion in positive lists (i.e. projects where additionality is not a concern, Table 6, p. 36) on the one hand, and reference to concerns over their additionality on the other (p. 46). The reader would have benefited from further elaboration of these apparent inconsistencies.

Addressing sustainable development, the reader would have benefited from a more critical, evidence-based evaluation of the concerns over the lack of sustainable development benefits of certain project types, as well as a discussion on the diversity of views on what constitutes sustainable development. For example, the Study notes that "analysis of six large hydro and energy-intensive projects showed little contribution to sustainable development, echoing findings of the literature at large" (p. 17). However, elsewhere in the Study it becomes clear that there is no universal definition of large hydro (it can mean anything from a 21 MW run-of-river plant to a >2000 MW reservoir, see e.g. footnote 31 in p. 41) and that the environmental impact of hydro projects is not necessarily correlated to project size

(p. 45). Furthermore, the Study incorrectly equals the failure of certain CDM projects to deliver development benefits to local communities as a failure to meet its formal objective to assist the host country “in achieving sustainable development” (Kyoto Protocol, Article 12.2); the Study implies that projects that do not deliver local benefits should not be registered as CDM projects (p. 44). However, the sustainable development benefits (such as reduced air pollution, improved energy security and movement towards a low-carbon economy compared to the baseline) of grid-connected low-carbon power projects should not be belittled merely because they are national, rather than local, in nature. It might have been worth reminding the reader of the two-fold objective of the CDM versus the additional wish lists of areas where the CDM should also take care of “en passant.”

Regarding the section on potential demand-side reforms in general and large hydro as an illustrative example, the reader would have benefited from a more nuanced approach which also discusses the implications of diversity (in terms of e.g. technical and financial parameters) within project types and the associated dangers of generalization and blanket approaches, rather than merely recognizing the existence of diversity (see e.g. 43 on diversity of hydro investments) and largely bypassing this critical point later on when discussing reform options.

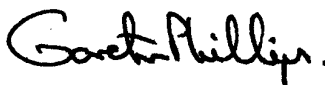
Last but not least, we would like to see the list of interviewees, referred to as an attachment to the report and as references in each briefing paper.

Sincerely,

Henry Derwent, President and CEO, IETA



Gareth Phillips, Chairman, Project Developer Forum



Miles Austin, Director, Climate Markets and Investors Association





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**Attachment**

CC: Mr. Peter Zapfel, European Commission (via email)  
Mr. Bas Eickhout, European Parliament (via email)

### **About IETA and its membership**

IETA is a non-profit business organization created in June 1999 to develop a functional international framework for emissions trading that results in real and verifiable greenhouse gas emission reductions, while balancing economic efficiency with environmental integrity and social equity. Its membership includes more than 155 international companies from OECD and non-OECD countries, across the carbon trading cycle.

IETA and its members have been actively involved in the CDM since the launch of this innovative market-based mechanism over a decade ago, engaging in all aspects of the CDM from the design and improvement of the mechanism's rules and governance to the creation and evolution of the carbon markets, and the development and financing of real CDM projects. Thus, IETA represents a unique cross section of CDM market actors and offers an access point to a wealth of diverse, broad and deep information and experience in the CDM and other emissions markets around the world, including grassroot-level project development and CDM cycle management. [www.ieta.org](http://www.ieta.org)

### **About the Project Developer Forum**

The Project Developer Forum (PD-Forum) is a collective voice to represent the interests of companies developing greenhouse gas (GHG) emission reduction projects in international markets under the Clean Development Mechanism (CDM), Joint Implementation (JI) and other carbon emission reduction schemes and programs.

The PD Forum is incorporated and its primary aims are to:

- improve the efficiency, legitimacy and functioning of the regulatory systems governing the development and use of emission reduction projects,
- influence policy developments and regulatory standards related to emissions trading and emission reduction projects,
- update and support independent standards and codes of conduct in order to further improve the integrity of the industry.

The PD-Forum is active in communicating with regulators at national, supranational and international levels and other project developers about the rules and regulations governing emissions trading and emissions reductions projects.

[www.pd-forum.net](http://www.pd-forum.net)

## **About the Climate Markets and Investors Association**

The Climate Markets & Investment Association (CMIA) is an international trade association representing firms that finance, invest in, and provide enabling support to activities that reduce emissions. CMIA's membership account for 75 per cent of the global carbon market .

Composed of businesses at the cutting edge of the services sector that work to reduce emissions through the market mechanisms of the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol, CMIA was created to ensure that the progressive business voice is heard, and to promote market-friendly climate change policy. Our members provide highly-skilled jobs and add value to the economy through services to, and capital injections into, the growing global carbon market.

CMIA distinguishes itself from other trade associations by providing an industry grouping that solely represents organisations whose business model is focused on environmentally positive outcomes. Our membership does not include any entities with compliance obligations under cap-and-trade schemes.

CMIA's membership comprises over 60 companies including financial institutions, asset managers, investment and carbon funds, project developers, lawyers, accountants, verifiers, emissions brokers, and IT firms.

[www.cmia.net](http://www.cmia.net)