

To President Barroso & Commissioner Hedegaard
From svn.kolmetz@pd-forum.net
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Subject **Review of the EU Emission Trading Scheme
and the global carbon market infrastructure**

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Annex Who is the Project Developer Forum?

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Dear President Barroso, Commissioner Hedegaard,

The Project Developer Forum (PD Forum) represents companies who initiate low carbon projects that contribute to CO₂ mitigation globally. Acting in a global market environment, we are strong supporters of the European Union's Emission Trading Scheme and its original objectives.

Economic recession, lack of international commitment to address climate change and overlapping EU policy instruments have led to EUA prices that no longer provide any incentive for industry to reduce emissions, thus failing its objectives, and consequently a lack of trust in the ETS as a policy instrument. Proposals to address these issues are currently under discussion, including back-loading and the Carbon Market Review.

When the ETS was established, a significant reduction effort was envisaged. However, the new energy efficiency directive and the economic recession have eliminated the need for reductions completely.¹ The current proposals do not necessarily address these underlying causes.

In order to tackle emissions beyond the EU boundaries, the Commission claims to support the design of new market mechanism(s) (NMM)² in developing countries, preferably within the framework of the UNFCCC. Developing NMM will require significant capacity building, awareness raising, training, ground support to implement, monitoring and verification. Much of the methodological, human and organisational infrastructure build up for the CDM is needed as a basis for the (more expansive) infrastructure needed for NMM. The CDM has taken a decade; the NMM will not be operational overnight. Indeed, while the CDM dealt with relatively simple project-by-project emission reductions³, the NMM will involve sector or economy-wide reductions which are far more complex to agree.

Until the NMM are operational, the CDM is the only credible mechanism available, and it will still be the only option for many sectors and countries for a long time after. However, under the current state of affairs the international carbon market is evaporating, and with it the infrastructure so badly needed to take climate action to the next level. The transition from where we are today and where we want to be tomorrow will not take place overnight. It is in this transition that we run the risk of destroying the very tools and vehicles best placed to deliver a low-carbon world. The CDM Policy Dialogue⁴ has highlighted the importance of keeping the international carbon market infrastructure in place.

¹ The reduction effort was estimated at 5 GtCO₂ for 2008-2020, with a capped use of Kyoto credits of about 1.65 GtCO₂, the domestic effort would be 3.35 GtCO₂. The energy efficiency directive reduces projected emissions by 2.5 GtCO₂ (three quarters of the domestic effort needed), and the recession by an additional 1 GtCO₂ (more than the remaining quarter of the effort). See Climate Brief No. 18, September 2012, CDC Climate Research, <http://www.cdclimat.com/Climate-Brief-no18-Energy-efficiency-renewable-energy-and-CO2-allowances-in-Europe-a-need-for-coordination.html?lang=en>.

² There are several different types of mechanisms proposed, including sectoral trading and crediting, credited NAMA, etc.

³ The CDM is currently addressing some of the more complex issues that will face NMM in relation to its programmes of activities (POAs) and standardised baselines. Broadening the scope beyond a project-by-project approach is proving to be time consuming, complex and controversial.

⁴ "Climate change, Carbon markets and the CDM: a call to action", Report of the High-Level Panel on the CDM Policy Dialogue, September 2012, <http://www.cdmpolicydialogue.org/report>.

While the EU needs to be congratulated for its support, almost single-handed, for the CDM, enabling it to grow to its current form, the EU is also the only credible source of support to maintain the capacity until a post-2020 regime has been agreed. The CDM Policy Dialogue has highlighted the current demand gap for CERs: given the urgency of climate change, they speak of under-demand for reductions rather than over-supply. Therefore, we need increased levels of ambition in both the EU context and globally, as well as specific demand-inducing activities for CERs. The current restriction, and the further restrictions still under discussion, on the use of the international credits in the EU ETS are endangering an effective long-term and global solution to climate change: with the market evaporating, human and organisation capacity is already being lost.

It is in this context that the PD Forum asks the Commission to support all possible actions needed to keep the global carbon market infrastructure and capacity in place. Actions will need to include increased ambition, increased demand for CERs, and demand for any new emission reductions (from NMM) in the longer term. This approach could encourage countries to 'graduate' in the international climate regime from CDM, to NMM, to taking on targets, while at the same time securing the survival of the infrastructure and capacity that will be required for future action. Increased demand could be created by an increased import cap on the basis of increased ambition within the EU ETS, the establishment of a CER Reserve Fund and Green Climate Fund purchases, specific country and sector support from donors, and other options.

The PD Forum would be very happy to contribute to developing these ideas further.

Yours sincerely,



Dr. Sven Kolmetz,
Co-Vice Chairman, Project Developer Forum

Annex: Who is 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. Our activities are detailed in full at www.pd-forum.net

The PD Forum currently has 50 members and affiliates and our members account for 22% of all registered CDM projects and 15% of all CERs issued to date (approx 150 million CERs). More importantly, we represent the sector of industry that has invested significant financial and intellectual capacity in the development of the CDM and JI and we represent a significant part of the future of project based GHG mitigation in developing countries. Without the involvement of companies such as those represented by the PD Forum, the future of the CDM, new market mechanisms, project based mitigation activities and the inclusion of many Non-Annex 1 countries in the carbon market will be jeopardized.