PROJECT
DEVELOPER
FORUM

TO:
Parties to the UNFCCC
The High Level Panel on the CDM Policy Dialogue
Stakeholders

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Project Developer Forum Ltd.
100 New Bridge Street
UK London EC4V 6JA

Europe: +44 20 7121 6100
Asia: +65 6578 9286
office@pd-forum.net
www.pd-forum.net

CHAIRPERSON:
Gareth Phillips
gareth.phillips@pd-forum.net

CO VICE CHAIRPERSONS:
Sven Kolmetz
sven.kolmetz@pd-forum.net
Rachel Child
Rachel.child@pd-forum.net

PD Forum position on the CDM Reserve Facility

- PD Forum supports the proposal for a CDM Reserve Facility
- Such a facility could operate by investing in projects and / or purchasing CERs
- PD Forum believes that the Facility should not favour new projects over existing projects.

PD Forum is supportive of the need for such a mechanism in the face of falling demand. Sustained low prices will lead to bankruptcy amongst project developers and failure of existing projects. Low prices will also discourage further investment in new projects.

We recognize the three key drivers for the CDM Reserve Facility:

* Provide a framework for investors to make commitments that contribute towards international or domestic targets which will in turn provide the market time and support to allow the necessary reform and scaling up of the CDM to be implemented
* Provide support to retain the capacity that has been built up around the CDM market and maintain the momentum in the development of carbon markets globally
* Maintain engagement and confidence of the private sector in market-based mechanisms so that large financial flows can be deployed through these channels when more ambitious reduction targets are in place

We propose that these can be best fulfilled by supporting the existing fleet of CDM projects, existing investments and the existing infrastructure from which new mechanisms and new projects will evolve.

Focussing effort on existing projects has three key benefits:

1. Supporting the existing institutional and intellectual capacity already engaged in the CDM, including project developers, consultants, DOEs, DNAs, NGOs, specialized investors and the UNFCCC Secretariat and its panels, will ensure that experience and expertise is not lost and that new investment does not cease whilst further reforms are developed and implemented.
2. Relying on new mechanisms is premature. Reformed CDM or New Market Mechanisms are not yet operational; PoA is not yet fully operational; conventional CDM projects still make up the bulk of the mitigation fleet; and
3. Supporting existing projects over the medium term is achieveable and meaningful; medium term support to 2017 or 2020 is unlikely to provide sufficient certainty to drive new investment, partiuarly considering the lead time to develop and finance a project under the CDM or an as yet undefined new market mechanism.

Features of a CDM Reserve Facility

Endorsement

Parties should be called upon to endorse the proposal and contribute funds.

Facility design

PD Forum is interested to further explore both options proposed and also to consider the purchase of existing CERs, recognizing that CERs which have already been created are more valuable to society than those which are yet to be created; and that projects which are currently generating emission reductions have more value than projects which will create emission reductions in the future. Supporting the substantial mitigation potential in the existing 5000 registered projects (more than 5.4 billion CERs from 2013 to 2020) will help to avoid project failure and bankruptcy amongst project developers – as living proof of the concept of additionality, methane abatement projects are already reverting to venting (i.e. the baseline) as costs of capture and verification exceed EUR1 per tonne CO2e. If low prices continue, verification and issuance of CERs will cease as Build, Operate and Transfer (BOT) contracts fail and assets pass back to host country partners; many projects will then fail as operation and maintainance costs increase.

Types of projects

We think that such a fund is unlikely to create direct significant investment into new mitigation projects and programmes because it does not give sufficient long term certainty. We propose that the fund focus on keeping the existing fleet of mitigation projects operational which in turn can free up capital to invest in further mitigation activities which are designed to meet the expectations of Parties. According to UNEP Risoe, the 5000 existing registered projects are expected to deliver in excess of 5 billion CERs between 2013 and 2020. A further 5000 projects are in the pipeline but irrespective of demand, it is unlikely that these will be built if the investments in the existing projects fail to deliver expected returns.

Sources of funding

Parties whose economies have benefited and will continue to benefit from CDM driven investment to date and parties whose economies have benefitted from access to least cost abatement should be invited to contribute. Private entities may also be invited to contribute funds. CERs which accrue to the Facility can be cancelled as part of host country efforts towards mitigation or banked against future targets.

Duration

We agree that a sunset clause is required to trigger the closure of the Facility however, this may be related to progress on international agreements which create demand for offsets; and may also reflect the rate at which host countries develop their own market based approaches. For example, advanced developing countries are encouraged to develop their own domestic emission trading schemes either incorporating existing CDM projects or creating internal demand for CERs – such countries may not need support from this facility in the medium term. Less and least developed countries may continue to need support until such time as international markets can once again support existing and new investments in mitigation.

Governance

PD forum agrees that no further complex Governance structures are required. The CDM modalities and procedures are sufficient to deliver registered projects and Certified Emission Reductions.

Co-ordination with the GCF

PD Forum agrees that activities should be closely co-ordinated with the GCF.