



PROJECT
DEVELOPER
FORUM



Chair, Vice Chair and Members of the CDM Executive Board
UNFCCC Secretariat
Martin-Luther-King-Strasse 8
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Germany

From Dirk Forrister, Sven Kolmetz and Werner Betzenbichler
Date 4 August 2020
Subject **Clarity on CDM operations beyond 2020**

Dear Mr. Diagne, Mr. Kassi and Honourable Members of the CDM Executive Board,

The International Emissions Trading Association (IETA), the International Carbon Reduction & Offset Alliance (ICROA), the Project Developer Forum (PD Forum), the Designated Operational Entities and Independent Entities Association (D.I.A.) and their members actively support the advancement of the objectives of the United Nations Framework Convention on Climate Change, the Kyoto Protocol and the Paris Climate Agreement, with a long history of engagement in the Clean Development Mechanism (CDM).

We are writing on behalf of our members to draw your attention to an issue that is cause of great concern for private sector entities involved in CDM operations.

For several years, the private sector urged clarity on the operational details of Article 6 of the Paris Agreement and on the future of the CDM. While the importance of these issues has always been clear, it has become increasingly pressing as we move closer to the end of 2020, which marks the end of the second Commitment Period of the Kyoto Protocol and the start of first compliance cycle under the Paris Agreement. The same concerns are also well expressed in a letter sent by the PD Forum to the CDM EB on April 30, 2020.

It has been our understanding that the CDM would continue to operate until there was a decision to terminate it or to transition to the 6.4 mechanism, but recent efforts to confirm this with the UN FCCC Secretariat were unresolved. There is little information available on how the CDM will be operated after January 1, 2021 and, consequently, whether projects and programmes of activities (PoAs) will be able to issue certified emission reductions (CERs) credits. This situation is exacerbated by the postponement of COP 26.

Investors and project developers are facing a dire situation whereby they have rising uncertainty on what will happen to their projects and investments from January 1, 2021. This in turn will have direct impact on the continuation of projects and places risk of emission mitigation reversals across various countries.¹

Further, we understand that members of the Executive Board have recently requested a review of several applications for crediting period renewals, apparently on the basis of uncertainties on the Compliance Period identifier and global warming potential to be used. These minor technical issues are putting important greenhouse gas mitigation projects at financial risk. This seems contrary to the intent of the CDM, which is to promote investment in carbon mitigation projects while delivering sustainable development benefits. There has been no decision by the COP to support such rejections.

Absent express direction from the COP, the CDM should continue to operate. In light of the current global pandemic, we believe this would be a responsible interpretation of the intention of Parties to avoid disorder in the functioning of the CDM market, and to fulfill the emissions mitigation mission of the UN FCCC. In particular, we believe the Executive Board should continue to use existing GWP factors and Compliance Period identifiers, on an interim basis until COP 26 rather than denying the applications entirely.

We believe this would be a responsible approach for the following reasons:

- *It would provide regulatory stability without compromising the ability of Parties to chart the future of the CDM and Article 6 at its first opportunity, given the unfortunate delays related to the COVID19 pandemic.*

A bedrock principle of the CDM has been to promote regulatory stability. Sovereign purchasing initiatives continue to invest in CDM projects, and private entities use CDM credits for both compliance and voluntary offsetting. These support for the CDM is good for the climate – and for the development of host communities. To disrupt this stability for minor technicalities runs at odds with the CDM's mission.

This should not distract from the imperative for Parties to make decisions on the transition of the CDM and a rulebook for Article 6 at COP 26. At COP25, IETA members, with a number of business organisations, strongly urged the CMA to adopt Guidance for the operationalisation of Article 6, including Rules, Modalities and Procedures for the Article 6.4 mechanism, and we urged the CMP to provide clarity on the future of the CDM after 2020. Regrettably, COP 25 did not provide any clarity on either issue, with

¹ <https://newclimate.org/wp-content/uploads/2017/05/vulnerability-of-cdm.pdf>

decisions on both being punted to COP 26. We will continue to call urgently for resolution of these matters at COP 26.

- *It would provide market continuity for approved projects that have relied, in good faith, on the Executive Board's proper stewardship of the CDM.*

The current uncertainty and lack of clarity on the future of the CDM is threatening the continuation of operating projects and PoAs, which may result in emissions rising and has already halted further investments in climate action in the order of tens of millions of dollars across public and private sector.

- *It would help to bolster market confidence in the UN's ability to govern market mechanisms at a time when more private sector action on climate mitigation is needed – not less.*

We are concerned that this situation will erode business confidence in the CDM and in emission reduction mechanisms operated under the UNFCCC. This, coupled with delays in the operationalization of the Article 6.4 mechanism, could have detrimental effects for business leadership in climate action and for the deployment of private capital in emission reduction projects in the future.

We welcome the fact that the CDM Executive Board will consider the implications of postponement of the CMP at its upcoming meeting (EB 107). **We urge the CDM Executive Board to provide clarity on this issue and to take the necessary interim measures to ensure that, at a minimum, CDM projects and PoAs can continue to operate and issue CERs accordingly until a future CMP decision.**

Further, we would like to offer you the opportunity to discuss this important topic with market participants in advance of that meeting to gain a better understanding of the potential risks of such rejections. IETA would be happy to convene a webinar for this purpose.

Our organisations and our members look forward to receiving your timely response and remain at your disposal for any clarification.

Yours sincerely,



Dirk Forrister
President and CEO
IETA & ICROA



Sven Kolmetz
Chairperson
Project Developer Forum



Werner Betzenbichler
Managing Director
D.I.A.

cc: Patricia Espinosa, Executive Secretary, UN FCCC
Carolina Schmidt, President, COP 25
Alok Sharma, Incoming President, COP 26

IETA

IETA is a global multi-sector business association created in June 1999 to promote the establishment of a functional international framework for trading in greenhouse gas emissions. Our more than 130 business members include leading international companies from across the carbon market cycle, including the world's leading project developers.

ICROA

The International Carbon Reduction and Offset Alliance (ICROA) is a non-profit organisation made up of the leading carbon reduction and offset providers in the voluntary carbon market. At a time when governments, businesses and organisations all over the world are looking for immediate and actionable solutions to keep the global temperature rise to below 2°C, ICROA plays a vital role in advocating for the use of offsetting and carbon finance to mitigate climate change. Being comprised of the leading companies in the voluntary carbon market, we provide a unified voice in these critical policy and market discussions.

PD Forum

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.

D.I.A.

The Designated Operational Entities and Independent Entities Association (D.I.A.) is an independent, not-for-profit organisation dedicated to the development and establishment of effective processes and criteria for and related to the determination and validation and verification of emission reduction and sequestration projects and to represent the members at relevant bodies of the United Nations Framework Convention on Climate Change (UNFCCC) and other Greenhouse Gas ("GHG") programmes that accept UNFCCC accredited bodies to carry out determination and validation or verification.