Carbon Markets & Investors Association™

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EC COMMUNICATION RESPONSE
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The Carbon Markets and Investors Association (CMIA) is an international trade association representing companies that finance, build, and support emission reduction projects across five continents, as well as service providers to liable entities under cap-and-trade schemes. Formed to represent businesses working to reduce carbon emissions through the market mechanisms of the United Nations Framework Convention on Climate Change (UNFCCC) and Kyoto Protocol, CMIA's international membership accounts for an estimated 75 per cent of the global carbon market, valued at USD 100 billion in 2008.

CMIA is encouraged by today's Communication from the European Commission (EC) and agrees that a successful outcome in Copenhagen depends on:

- **Ambitious emissions reduction targets**, which are crucial for maintaining the environmental integrity of markets and sending a meaningful price signal to stimulate investment in low-carbon technologies and measures
- **Pledges on the part of developing countries** to implement nationally-appropriate domestic mitigation action plans, and to establish the necessary structures for investments in mitigation activities and sustainable development roadmaps
- **An effective global architecture to give the right incentives** to spur investment into low-carbon development

The EC's communiqué states that the private sector is expected to provide close to 40 per cent of the €100 billion per year by 2020 for adaptation and mitigation actions in developing countries – this number was at €4.8 billion in 2008. Moreover, the EC notes that "the more the carbon market can provide, the less demand there will be on public finance." We concur with this, but note that **this is a heavy expectation in the absence of ambitious international targets.** Copenhagen must bring a global commitment that is in line with scientific consensus on the global emissions reduction level required to prevent surpassing atmospheric warming of 2 degrees Celsius.

Considering our member profile, CMIA is one of the best-placed associations to explain what must be done to ensure that the carbon market is scaled up to the level required. Within the confines of what the EC Communication addresses, CMIA would like to emphasize the following.

REDD MECHANISM

CMIA acknowledges that text agreed at Copenhagen will only be the first step in developing and implementing a REDD Mechanism. However, **it is critical that the principles agreed at Copenhagen recognize and encourage the capacity of the private sector to assist develop the tools to tackle emissions from forestry and land use activities.**

CMIA is encouraged by the EC's support for including REDD as an additional source of finance for countries experiencing high levels of deforestation. However, **the full potential of REDD will only be achieved with a significantly more prominent role for the private sector**. In particular, CMIA believes that:

- **Sub-national approaches involving private sector investors** have a demonstrated capacity to develop host country skills, experience and data that are directly relevant to the transition to a national reference level.
- **A 'phased' or 'staged' REDD mechanism** should create incentives for private sector funding of valuable sub-national demonstration activities. Such activities allow the testing of benefit sharing provisions, create trust among various actors, and generate valuable data and lessons learned. Conceptually, the nested approach offers a realistic and effective transition path to national reference levels for a REDD mechanism.
- **Early action of private and public actors** in achieving MRV-grade GHG emission reductions and enhancement of stocks in REDD demonstration activities should be rewarded under a future compliance regime.
- **While REDD countries are in the process of establishing REDD national systems** (MRV, registries, inventories), an international body should establish guidelines for REDD activities and issue credits for host country approved project activities. Credits issued will be discounted from national REDD benefits once a national reference level has been adopted.

OFFSET MECHANISMS

It is important that the CDM moves toward a sectoral-based scheme in countries with robust emerging economies, while the Mechanism itself is "substantially reformed" with a "focus on LDCs". However, the Communication neglects two important aspects:

- **Policy makers must provide clear and explicit messaging, targeted at investors and the market, that the CDM will continue post-2012 as a transitional mechanism.** A large portion of this is the guarantee of the existence of demand centers, parity of credits as new mechanisms come online, and the guarantee of the safety of investments between now and 2012. Investment is palpably tapering off as market certainty wanes and this trajectory must be stopped and reversed.
- **For this to occur, the CDM must be reformed NOW (pre-2012) to provide investors with more regulatory and market certainty.** That is, project approvals must be standardized, accountability must be provided to decisions made by the Executive Board (EB). CMIA would strongly suggest the institution of a decisions appeal process, and a streamlined credit issuance structure. Thus far, the CDM has not delivered reductions to its full potential due to the sub-optimal institutional procedures and lack of predictability.
- **The environmental integrity of a new agreement is threatened by the creation of new mechanisms that fail to mobilize sufficient capital** and thereby fail to achieve the scale of emissions reductions required. Success lies in creating a clear value proposition which balances risk and reward, provides investor confidence, and is governed by structures that allow a significant scale-up of capital investments and development.

There is much rhetoric from international policymakers about the importance of engagement with the private sector. Engagement with the investor community is most critical in discussions of design features of new mechanisms.

The reputation of the UNFCCC and those nations that have placed political capital into the international process rests on the success of these mechanisms, and success is measured not only by the ambition levels, but the volume of capital mobilized, both public and private.

If 40 per cent is to be provided by the private sector, policy makers must listen much more closely to an analysis of market feasibility of each of the current proposals on the table.

We look forward to further productive engagement both in Pittsburgh and New York later this month, and to a continued constructive dialogue in Bangkok.

ENDS

Questions?

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