
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 on the part of developed countries**, which is a crucial piece to maintaining the environmental integrity of markets and sending a meaningful price signal to stimulate investment in low-carbon technologies and measure
- **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 galvanize investment into a low-carbon economy"

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:

CDM REFORM

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.

INTERNATIONAL GOVERNANCE STRUCTURE

The proposal that there must be a "bottom-up climate finance governance" structures that are "country-driven" since "a decentralized system based on country-driven proposals allow contributors a higher degree of discretion over the efficient use of their contributions and is thus likely to encourage larger contributions than could be expected in the case of only one major centrally managed multilateral fund". Insofar as this applies to public finance, CMIA does not disagree.

However, if this proposal intends to inform the structures around private investment, we would strongly caution against it. A decentralized structure will not help to build investor confidence, the ability to manage risk, ensure the fungibility of credits, among other investor considerations. Moreover, it would significantly undermine the value of the UNFCCC process and institutions. **CMIA would call for evolution – not revolution.** We have structures that function; we would encourage their use.

There is much rhetoric from international policymakers about the importance of engagement with the private sector. CMIA understands that this is difficult since there are considerations of political feasibility involved.

However, **the reputation of the UNFCCC and those nations that have put 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

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