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Press Release

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To	**General Release**
From	**office@pd-forum.net**
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Subject	**Operational Continuation of the CDM beyond 2020**

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.

Background
Since 2005 the world has implemented the “Clean Development Mechanism”, or “CDM” to allow private investors to finance additional climate change mitigation activities and use the resulting emission reductions of greenhouse gases for compliance in carbon emission trading schemes. The CDM is a success story and it has resulted in almost 8,000 projects and reduced emissions by 2.0 $GtCO_2e$.

The CDM shall be replaced in 2021 by a new market mechanism under the Paris Agreement, reached by 192 states in 2015. Although the detailed rules and regulations for this new “Article 6 mechanism” have been negotiated by UNFCCC parties since 2015 they are not yet finalised. Furthermore, the rules for a transition of the CDM projects to the new mechanism are not complete. Due to the postponement of this year’s 26th Conference of the Parties (CoP26) of the Paris Agreement, due to the Corona pandemic, the regulations will not be adopted before end of 2021 at the earliest. This leaves a one-year gap between the old and the new systems for issuing emission reduction credits from projects.

What are the implications of this?

Uncertainty: The gap between the end of the Kyoto era and the implementation of the Paris era causes a significant amount of uncertainty for project developers, as the lack of rules means the market enters a vacuum.

No issuances of CERs: Projects registered with the CDM have each demonstrated that they require income from the sale of carbon credits in order to be financially viable. If the CDM does not continue immediately from the start of 2021, projects will not be able to generate carbon credits to sell, nor raise revenue for continuing operations. This will put activities that reduce greenhouse gas emissions at risk of failure – at a time when action to reduce carbon emissions is more critical than ever.

Eroding confidence in UNFCCC: The private sector has invested in CDM projects on the basis that it is regulated by a well-renowned international body, the UNFCCC and its CDM Executive Board. The UNFCCC’s inability to give firm guidance on the continuity, even two months before the end of the Kyoto period, severely undermines its reliability. Furthermore, there is evidence that some of those objecting to a simple solution (see suggestions below) are doing so based on politics, point scoring and wider negotiating positions going into the Paris era. The CDM has become a victim of this posturing.

Reduced investment in climate projects: The majority of investors finance emission reduction projects because the CDM offers an investment opportunity. At the same time, these investments can have significant financial, health and environmental benefits for local communities that can be many times greater than the original investment. Cutting off new projects will therefore not just curtail investor returns, it will have major life-impacts for people in host communities.

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Reduced supply of CERs: A significant number of emissions trading schemes around the world have used the CDM as a key pillar of their activities. These include the governments of South Korea and South Africa and the scheme for international airlines called CORSIA. All of these are either operational or about to become so. Having no CERs issued from activities from January 2021 will undermine the confidence of investors in these schemes and significantly disrupt their operation.

What can be done in the interim?

We recognise that there are challenges in the institutional arrangements at the UNFCCC and in particular the challenge of providing continuity when the Covid pandemic has caused disruption to the normal schedule of meetings. However, we believe that the UNFCCC and the CDM Executive Board should work tirelessly to reduce uncertainty and provide clarity – for the reasons outlined above. We believe that the following could offer interim solutions:

Interim Period: We suggest an interim period, between January 2021 and when the rules for the new mechanism are in place. The CDM Executive Board should allow continuity of the key parts of the process between now and COP 26. During this time, new CDM project activities could be started / registered and CERs issued using the existing infrastructure.

Another Solution: If the Executive Board is not in a position to issue CERs covering this interim period, we suggest that projects may go through the verification system and have their CERs processed to a stage just before issuance (e.g. pending account or information & reporting check) without – this is important – payment of any issuance fees until the issuance has actually happened. This is a half-way house, before they are released into the market. At the next meeting of the main UNFCCC body (the CMP) at COP26, the decision could be ratified and CERs released. This will continue to cause uncertainty, but it will mean that developers can "hit the ground running" once the final authority is given, with CERs released very quickly thereafter. The time of this interim period and the conditions can be decided by the COP26 retroactively starting 1st of January 2021 and for a defined period in the future until the elements of the new mechanism are finalised.

The CDM Executive Board meets for its 108th Meeting between 1st and 14th of December. Unable to give clarity on these issues at its 107th meeting, we urge the Board to do so in December. This is vital to retain confidence in the CDM and continue the fight to finance greenhouse gas emissions through private finance.

Sven Kolmetz
Chairman, Project Developer Forum