

# PROJECT DEVELOPER FORUM

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To Christina Figueres  
From Gareth.Phillips@pd-forum.net  
Date 24/2/2012  
Subject Call for Input “Durban Platform for enhanced action”  
submission before 28/2/2012

Dear Ms. Figueres,

The Project Developer Forum (the “PD Forum”) wholeheartedly agrees with the Durban Platform for Enhanced Action that more ambition is required to fight climate change and limit global temperature increases to below 2 °C or 1.5 °C. We therefore welcome the establishment of the ad hoc working group to start new initiatives to reduce greenhouse gas emissions through stronger multilateral policies.

The PD Forum is the biggest grouping of investors in emission reduction projects. Our members have on-the-ground experience in investing and implementing clean technology projects throughout the developing world. When the ad hoc working group consider options and ways for increasing ambition and further action it will be critical to consider the view of the private sector, who will most likely be expected to achieve this increased ambition and carry out the further action. Representing the most active investors, the PD Forum would be interested to represent the views of our members at the in-session workshop, and to share our experiences.

The PD forum would like to outline four key points in our submission:

1. The private sector can bring considerable value to any international climate regime;
2. The private sector requires clear and certain incentives to encourage investment;
3. The international community can and should learn from the experience of the CDM, and try and build upon its successes and improve the mechanism;
4. The international community must guard against creating disincentives for the private sector by removing existing incentives before better alternatives are in place;

## **1. The value of the private sector**

In the past 10 years national and international climate change policies, including the CDM, have resulted in unprecedented rates of investment by the private sector in clean energy. The carbon market alone totalled 142 billion US\$ in 2010<sup>1</sup>. These policies have increased demand for green technology, and allowing manufacturers

<sup>1</sup> World Bank, 2011, State and Trends of *the Carbon Market 2011*

to reach economies of scale. This has resulted in the costs of wind turbines, solar panels, industrial efficiency technology and other clean tech falling dramatically.

The CDM is a prime example of how the private sector can react quickly to policy incentives. In less than a decade, the CDM has helped fund thousands of projects in the developing world, representing millions of tonnes of GHG emission reductions. At its height, the CDM market totalled 34.4 billion US\$<sup>2</sup>. With breathtaking speed, a whole network of consultants, auditors, investment funds and project developers has emerged, encouraged by the policy incentives established in the CDM. New innovative green technologies have been supported by the CDM, and international investors have brought established technologies to new regions.

The PD Forum notes that many of the current initiatives under discussion under the Durban Enhanced Action Plan, as well as the Copenhagen and Cancun agreements, are almost solely driven by the public sector. Whilst the public sector has a critical role to play in defining policies and incentives and capacity building, governments and international organisations need to recognise the strength that the private sector has in innovating, financing and implementing projects at the speed necessary to tackle the urgent and potentially irreversible threat of climate change. For example, the public sector – in particular the Dutch government buying schemes – played an important role in the early years of the CDM, building capacity and confidence. It was the private sector who drove the rapid scaling-up of the mechanism, and the the public sector's share in the CDM today is minimal.

## **2. The need for clear and credible long term incentives**

For an investor, clarity and long term certainty of incentives is critical in deciding whether to fund a clean energy project or technology. Long term policy clarity means companies can plan effectively, investing money today in the knowledge they will receive a return in the future. The carbon market, by pricing greenhouse gas emissions, is an effective tool for incentivising investment in a lower carbon future. The PD Forum strongly believes that it is essential that carbon markets form an integral part of any increased ambition initiative from the UN. Without these markets the ambition will not be matched by action and the Durban Enhanced Action Plan will be little but empty words.

The international community needs to ensure any new initiative is credible and not subject to frequent and material changes by the UNFCCC or national governments. Without policy clarity, investment in clean technology will slow. The PD Forum wants to see decisive leadership from the international community to ensure all policies are credible, and create a favourable policy environment for the private sector.

## **3. The CDM as the basis of new market-based mechanisms**

Over the past decade, the CDM has developed and matured substantially. Firstly, there has been a large amount of 'learning-by-doing', by project developers, consultants, audit firms as well as the secretariat and executive board of the UNFCCC. Secondly, rigorous standards related to independent validation and verification of emissions and environmental integrity, stakeholder consultation and sustainable development have all been developed. Thirdly, a network of experienced consultants, auditing entities and project investors are already well-established throughout the world. When creating future initiatives, parties should take advantage of these experience refined regulations and network. The new initiatives must build on the experience, standards and infrastructure, not try to replace them and start from scratch.

Indeed, the PD Forum believes that the CDM is a framework in which further ambitious policies can be accommodated. The concepts pioneered in the CDM provide a solid basis for the creation of many more projects and programmes through which private sector finance can directly invest, in ways which could not have been envisaged before the creation of the CDM. The CDM is, therefore, a critical building block for the development of a greater public-private partnership in combating climate change and encouraging innovative sustainable development. The PD Forum recommends that the ad hoc working group looks at recent progress in Programme of Activity projects, when considering how to form new initiatives, including NAMAs. In particular,

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<sup>2</sup> Idem.

we would like to highlight two important considerations for the working group:

**NAMAs and SCM:** Nationally Appropriate Mitigation Actions (NAMAs) and a Sector Crediting Mechanism (SCM) are proposed new financial mechanisms to channel investment into green technologies. Chinese wind CDM projects, one of the most successful sectors within the CDM, could be seen as a prototype of both these new ideas: the Chinese government finances a feed-in tariff, which is significantly above the average price for generated electricity, and the CDM finances the emission reductions achieved – the feed-in tariff and CDM together provide attractive returns to the wind farm developers. This has led to 40 million emission reductions in this sector and China becoming the number one wind producer in the world from less than 100 MW installed capacity before the first Chinese wind CDM project started its approval process.

**Regional Distribution:** The CDM is a private sector funding mechanism and CDM projects meet the same barriers as traditional investments. Thus, the regional distribution of projects logically follows these traditional investments in large parts: this will be true for any market-based mechanism. However, the CDM project developers are going beyond the traditional investment destinations, with significant investments in Least Developed Countries. For example, project applications worth more than 100 million US\$ and generating over 300 jobs have been published on the UN website alone for Tanzania<sup>3</sup>.

#### **4. Refrain from creating disincentives**

The CDM has become a very successful mechanism, thanks to a decade of investment of time, effort and money by the public and private sector. However, much of the current discussion seems to dismiss the current experience and mechanisms and the reductions achieved through them. New and untried ideas, which will still need many years of rules and capacity building before being operational, are being proposed to replace the current mechanism without providing for allowing continuity. These discussions seriously affect the clarity and credibility of the long-term incentives created, making clear to the private sector that, despite all the investment and effort (and promises), the mechanisms are extremely risky and uncertain, and that emission reduction projects are not “investment grade” and carbon benefits unlikely to materialise. This does not only discredit the current mechanisms but also any new mechanisms developed in the same international forum. Thus, whereas the private sector enthusiastically embraced the Kyoto mechanisms, they would be unlikely to participate in the new mechanisms once the UN process has discredited itself – once bitten, twice shy.

Additionally, there are also efforts to dramatically limit the only currently working international emissions reduction mechanism. The impact that this will have on the existing CDM sector will be severe. The infrastructure built by DOEs, consultants and developers is unsustainable with such limits and without working alternatives (for many years to come). The loss of the expertise and capacity in the sector that will result from this limitation will be extremely damaging for any prospects of the future CDM and new mechanisms. Again, this will result in discrediting the current mechanisms and any new mechanisms developed in the same international forum and must be avoided.

#### **5. Final note on voluntary market**

Additionally, there are many examples showing that the global community is willing to contribute on a voluntary basis to this planetary target, such as offsetting business flights, travel or conferences. The acknowledgement and the active support by the United Nations of such kind of voluntary action will help to close the gap and enhance ambitions; this could be through selecting only carbon neutral suppliers, or by the UN offsetting the emissions of its own activities.

Thank you for the opportunity to submit our thoughts on future ambitions and action plans. We hope to be engaged in this important working group, and welcome any further opportunities for dialogue.

Yours Sincerely,

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<sup>3</sup> <http://cdm.unfccc.int/Projects/Validation/index.html>

*Gareth Phillips.*

Gareth Phillips

Chair