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UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

**CONFERENCE OF THE PARTIES SERVING AS THE
MEETING OF THE PARTIES TO THE KYOTO PROTOCOL**

Second session

Nairobi, 6–17 November 2006

Item 5 of the provisional agenda

Issues relating to the clean development mechanism

Equitable distribution of clean development mechanism project activities

Submissions from Parties

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, by its decision 7/CMP.1, requested Parties to submit to the secretariat, by 31 May 2006, views on systematic or systemic barriers to the equitable distribution of clean development mechanism project activities and options to address these barriers.
2. The secretariat has received four such submissions. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced* in the language in which they were received and without formal editing.

* These submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

FCCC/KP/CMP/2006/MISC.1

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* This submission is supported by Bulgaria, Romania, Bosnia and Herzegovina, Croatia, Serbia and the former Yugoslav Republic of Macedonia.

PAPER NO. 1: AUSTRIA ON BEHALF OF THE EUROPEAN COMMUNITY
AND ITS MEMBER STATES

**SUBMISSION BY AUSTRIA ON BEHALF OF THE EUROPEAN COMMUNITY AND
ITS MEMBER STATES**

This submission is supported by Bulgaria, Romania, Bosnia and Herzegovina, Croatia, Serbia and the former Yugoslav Republic of Macedonia

Vienna, 13 June 2006

**Subject: Guidance relating to the clean development mechanism
Views on systematic and systemic barriers to the equitable distribution of clean
development mechanism project activities and options to address these barriers, for
consideration by COP/MOP 2**

In Montreal the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) decided to invite Parties to submit their views on systematic and systemic barriers to the equitable distribution of clean development mechanism project activities and options to address these barriers, for consideration by the COP/MOP at its second session. The EU welcomes the opportunity to exchange views on this issue and looks forward to the upcoming discussion.

1. Potential factors affecting distribution of CDM projects activities

Due to the design of the CDM as a voluntary market-based mechanism, investment activities may tend to concentrate where transaction costs and investment risks are low and opportunities are high. This is evident in particular in the case of Africa where few projects have yet materialised, as recognised by Decision 29/CMP.1. The reasons for distribution of projects will of course vary according to the differing circumstances from country to country.

The purpose of the CDM is to assist non-Annex I parties in achieving sustainable development and in contributing to the ultimate objective of the convention and to assist Annex I parties in achieving compliance with their quantified emission limitation and reduction commitments under Article 3 of the Kyoto Protocol. CDM is the only instrument of the Kyoto Protocol to voluntarily engage non-Annex I countries in project-based mitigation efforts. In Marrakech, Parties agreed that the host country (that has met the participation requirements for CDM¹) should assess whether CDM project activities are deemed to be consistent with its sustainable development priorities.

The entry into force of the Kyoto Protocol and the start of concerted public and private investment in the CDM has taken more time than expected. But after five years of technical experience and lessons learned, the market is starting to develop in a promising direction.

¹ Participation requirements include ratification of the Kyoto Protocol and the establishment of an operational Designated National Authority.

The EU believes that the fundamental structural and institutional issue is the lack of a stable legal, financial and institutional framework for foreign investments. Also, the EU recognises that CDM is a learning process that provides ways to create incentives for mitigation efforts in non-Annex I countries such as in energy and industry sectors. In the least developed countries the accessible projects are often only in forestry and bioenergy or small scale, due to their limited industry and energy production. The CDM also provides possibilities to participate in the existing carbon market and so increase investment in those countries

In addition there are other challenges that affect the distribution of CDM projects, such as:

- absence of financing possibilities
- low level of industrial development
- risk aversion
- weak institutional capacity for identification and development of CDM projects
- fragmentary sustainable development strategies in relevant policies aiming at incorporating climate protection policy

as well as

- inadequate capacities and structures for monitoring and verifying projects
- unavailability of reliable public information for determination of baseline emissions and emissions factors
- lack of approved methodologies and baseline data for certain sectors of particular interest to small countries.

The fundamental barriers are not ready for a quick fix. They are to be addressed as part of the long-term development policies and plans from the developing countries themselves. Most barriers should be addressed in the context of creating an enabling environment for clean investment and sustainable development. They are more substantial than what can be tackled from the perspective of climate change regime in isolation. For example sustainable investments in energy infrastructure need to be addressed not only by national policies, but also in the broader context of promoting economic and social development. Other relevant fora to consider these issues include International Financial Institutions, the Commission on Sustainable Development (CSD) and international public and private investment institutions.

The EU is ready to explore with other Parties what the systemic and systematic barriers are and how they can be addressed. Furthermore, the EU encourages all Parties to share good practices and lessons learned with regard to removing barriers and attracting appropriate CDM investments.

2. Existing initiatives to address systemic and systematic barriers

Concerns regarding the balanced distribution have lead to the following initiatives within the context of the Protocol and decisions on CDM:

- Adoption of simplified methodologies, modalities and procedures for small-scale CDM project activities, as well as various financial incentives, such as free registration
- Agreement at COP/MOP1 that project activities under a programme of activities can be registered as a single project activity, which can facilitate broader involvement and a more structured approach to project led investment, engaging both public and private sector investment
- Bundling of project activities is generally allowed to reduce transaction costs
- A reduced rate of the share of the proceeds for smaller projects through application of lower rate to

the first 15,000 tonnes of emission reductions per annum

- Establishment of a Forum for Designated National Authorities (DNAs) at UNFCCC level to encourage the sharing of views and experiences
- The Marrakech agreement that 2% of the share of proceeds from issuance of CERs will be deposited in the Adaptation Fund

These measures enable countries to benefit from the CDM, both by facilitating development of project activities, or where they do not occur, to ensure that countries can still receive support from the mechanism.

More broadly, in Decisions 29/CMP.1 and 7/CMP.1 Parties agreed on measures to facilitate developing countries to participate in project activities under CDM.

3. Contribution of the European Union

The EU has been an early mover in establishing the CDM market, and has consistently sought to address barriers in a variety of ways. Individual Member States sought to maximise participation through public procurement funds, supported by Memoranda of Understanding on long-term cooperation with host countries, contracts with multilateral, regional and private financial institutions, active trade promotion, and specific capacity building initiatives, regional DNA meetings and bilateral cooperation.

The EU in particular has encouraged private sector engagement in the CDM through the establishment of the EU Emissions Trading Scheme (ETS) and linking it to the CDM and JI even before the Kyoto Protocol entered into force.

The EU is also the world's largest provider of development finance to developing countries. Through the engagement of the EU and its member states in international development co-operation, a substantial effort is undertaken by the EU to promote economic and social development in developing countries. This includes support for improvement of enabling environments in developing countries, including least developed countries, which will help attract investments in the energy sector and other sectors of relevance for CDM projects.

At the 23rd session of the Subsidiary Bodies, the EU presented information on its activities; "*EU Investment in the Kyoto Mechanisms*" which illustrates the EU participation and support to the CDM. This document will be regularly updated in order to monitor the CDM and JI efforts of the EU member states. The EU continues to promote the development of CDM project activities in all non-Annex I countries that meet the conditions for participation.

4. The way forward

The EU believes that there are existing means and activities which could be better utilised to address barriers and identify practical solutions to address them. In particular:

- Use of the DNA-forum established at COP/MOP 1 to share good practices and lessons learned with regard to removing barriers for CDM implementation and report to the COP/MOP on these experiences - the EU welcomes the recent informal meeting of this forum and notes its value to build capacity through exchange of views and experiences.
- Ongoing work, including by the World Bank, to establish an investment framework for clean energy and sustainable development that could enhance the role of the CDM.
- Ongoing work on technology transfer under the Convention, in particular developing countries' Technology Needs Assessments (TNAs) and innovative options for financing the results of TNAs.

Furthermore, the EU suggests exploring the possible synergies between the ongoing work of the expert groups under the UNFCCC, in particular the Expert Group on Technology Transfer (EGTT), the Least Developed Countries Expert Group (LEG), the Consultative Group on National Communications (CGE) and the work of the CDM Executive Board by facilitating an exchange of views. Such an exchange of views could focus on opportunities for creating an enabling environment for clean investment and sustainable development.

Finally, the Convention Dialogue may identify additional policies and instruments to realise the full potential of market opportunities. There may also be possibilities to identify additional opportunities under the Kyoto Protocol processes. The creation of additional incentives to promote a carbon market in countries that currently profit little from CDM play an important part in engaging those countries in the international climate cooperation including the CDM.

The EU looks forward to discussing these issues further with other Parties.

PAPER NO. 2: MOROCCO

**Soumission du Maroc relative au paragraphe 32 du document
FCCC/KP/CMP/2005/L.7**

26 mai 2006

Le Maroc est à ce jour le pays africain qui a pu enregistrer le plus grand nombre de projets MDP (trois) auprès du Conseil Exécutif du MDP (CE MDP). Ce résultat est le fruit de longues années de travail qui ont suivi la tenue de la 7^{ème} Conférence des Parties et la décision du <<prompt start>> prise à Marrakech en 2001.

Le Maroc, par sa pratique de ce Mécanisme, est conscient des difficultés auxquelles les pays africains font face et qui les empêchent de tirer le meilleur profit du Mécanisme pour un développement propre, caractérisé aujourd'hui par une répartition régionale déséquilibrée.

Malgré les améliorations obtenues à travers les décisions de la COP/MOP1, le Maroc considère que le processus reste encore assez complexe et que les capacités et l'expertise africaines devraient être renforcées.

Afin d'assurer une répartition plus équitable des projets, le Maroc propose que les prochaines négociations prennent en compte les propositions suivantes:

- Allègement des paramètres de l'additionnalité, sur une certaine période, au profit des pays où le nombre de projets MDP est en dessous d'un certain seuil ;
- Allègement de l'additionnalité au profit des projets d'énergies renouvelables concourant au développement durable selon les recommandations du Sommet de Johannesburg ;
- Création d'une ligne budgétaire au sein du CE MDP destinée à la promotion du MDP dans les pays les moins avancés. Ce fonds pourrait être alimenté par une taxe sur les revenus de projets qui génèrent des quantités importantes d'URCEs et serait destiné au renforcement des capacités locales, à la mise en place des AND et au développement des premiers projets ;
- Accélérer le processus d'opérationnalisation de l'approche programmatique adoptée lors de la COP/MOP1 ;
- Donner la priorité à l'examen des projets développés en bilatéral et porteurs de transfert de technologie et de savoir-faire ;
- Éliminer les disparités des règles et procédures entre le MDP et le mécanisme de mise en oeuvre conjointe dans le secteur du boisement et reboisement

PAPER NO. 3: PAKISTAN

The Embassy of the Islamic Republic of Pakistan in Berlin presents its compliments to the UNFCCC, Secretariat, Bonn and with reference to the efforts by the COP/MOP 1 to seek views on equitable distribution of Clean Management Mechanism (CDM) project activities has the honour to convey the suggestion of the Government of Pakistan that it is of vital importance to provide special window of opportunity for meeting adequate capacity building/training needs of the late entrants to Koyoto Protocol including Pakistan. Lack of awareness and capacity building in project preparation remains the major barrier for CDM projects in Pakistan.

The early entrants greatly benefited from the capacity building projects that were initiated by various bilateral/international agencies/institutions during the past 5 years. Such projects continue to be concentrated in these countries.

The concerned Pakistani authorities have requested that provision of capacity building projects in countries like Pakistan may be made possible which will remove a major barrier to CDM projects activities.

The Embassy of the Islamic Republic of Pakistan avails itself of this opportunity to renew to the esteemed UNFCCC, Secretariat, Bonn the assurances of its highest consideration.

PAPER NO. 4: UZBEKISTAN

Opinion of Republic of Uzbekistan referred to the systematic or system obstacles on the way of the fair distribution of the project activities in the framework of the Clean Development Mechanism (CDM) and options of these obstacles overcoming to be considered by the Conference of Parties acting as the Meeting of the Kyoto Protocol Parties at its Second Session

Republic of Uzbekistan supports the efforts of secretariat on the implementation of the activities in the framework of Clean Development Mechanism (CDM)

Being a Party of UN FCCCC and Kyoto Protocol, Republic of Uzbekistan as a state with the economy in transition implements the measures related to the preparation of CDM projects.

However, different obstacles are faced in a process of the preparation and implementation of CDM projects:

- Absence of administrative capacity
- Absence of special experience besides common knowledge for the project designers
- Very few proposals on the high technologies transfer
- The proposed projects are based on cost-effective technologies
- Very low costs are proposed for the certified units of emissions
- Need in the creation of capacity of the qualified professionals for the preparation and implementation of projects.

To our opinion, the realization of the interests of the Parties of Annex 1 in the high-technologies transfer with providing for the appropriate costs for the certified emissions units is possible with securing the additional privileges for them.

One of the real approaches to the training of qualified professionals is carrying out the training workshops in the field of the project idea, preparation of the project documentation and implementing the CDM projects.

It is desirable to carry out the training of experts at the regional CDM workshops with consideration both of theoretical problems of the projects elaboration and the examples of their practical realization. Of special interest is consideration of the following issues at the inter-session workshops:

- Possible barriers in CDM projects elaboration and ways of their overcoming
- Selection of the effective CDM projects
- Problems of the small CDM projects
- Practical benefits which can be got by each of the Parties participating in the project

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