

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 members draw on five years of investment experience in both the Clean Development (CDM) and Joint Implementation (JI) Mechanisms.

As some permutation of a sectoral mechanism will likely to form part of the Copenhagen agreement, CMIA believes that ensuring the following principles are not precluded by the design specified in the text of the final Agreement is critical to:

- Assuring the environmental integrity of a sectoral scheme
- Ensuring that sufficient incentive is provided to mobilize large-scale capital

Below, CMIA enumerates the key principles of design we believe are crucial to creating a robust and successful sectoral scheme.

Commit to environmental integrity

- Benchmarks and estimates of current and future emissions should be based on conservative values derived from sound, independent data collection and modeling.
- All ongoing monitoring, reporting and verification (MRV) must be conducted by an independent, accredited third-party.

Ensure a smooth transition phase while safeguarding investor certainty

- In order to mobilize investments in new mechanisms, current investments in existing mechanisms must be protected. If these are compromised, mobilizing new investments on a meaningful scale will be considerably more difficult. The long-term intention of policymakers should be communicated clearly to the markets.
- It may take an extended period to determine the procedures and details of any particular sectoral scheme. Therefore, existing mechanisms (Clean Development Mechanism and Joint Implementation) should remain. In the event that existing mechanisms are replaced abruptly or arbitrarily by a sector-based scheme, the continuity and credibility of the market would be compromised, and human and financial resources would likely flow away from the mechanisms.
- Allowing early crediting during the transition phase would incentivize investments.
- The risk of double-counting between existing and new mechanisms needs to be managed by, for instance, the creation of CDM Reserves, similar to the JI reserve for EU accession countries.

Directly credit project activities or installations

- Sectoral mechanisms should directly credit projects and / or installations, that is, at the point of investment. Crediting should be independent from the activities of other installations in the sector. Investors cannot take risk that they cannot assess, measure, or control. Significant investment will not flow if crediting is dependent on the aggregate success of unrelated facilities within a sector.
- In order to guarantee investment, ongoing project activities must be eligible to regularly and predictably apply for and receive credits for ongoing project activities on an annual basis at minimum.
- Baselines determined by a sector's emissions intensity or other industry averages must recognize variations within a sector, particularly those with widely varying levels of emissions intensity, and access to technology and financing. Differentiated baselines for "sub-sectors" (that is, sectors within sectors) will provide incentives to a range of performers, while preserving environmental integrity.

Give project participants and investors security over future credit rights

- The guarantee that credits will be issued if projects are performing is critical to securing investment and is consistent with the *ex-post* allocation concept. Investors understand and accept the risk that if emissions reductions are not achieved then credits will not be issued. However, they likewise need to be certain that credits will be issued if emissions reductions are achieved.

- The new mechanism should expressly allow private investors to own and transfer credits, and their right to credits, without the risk of revocation or cancellation. The explicit right to transfer or secure future rights to a third-party, and for that third-party to take on the associated compliance risk, must be given.

Create internationally fungible units

- Credits must comply with internationally agreed to and recognized MRV standards.
- The accreditation of independent auditors should be a priority.
- Price interventions that distort the market, such as price floors or caps, must be avoided.

Provide long-term certainty in the new mechanism

- Demand for the credits generated by the new mechanism from nations with emissions reduction targets must be predictable over a minimum time horizon of 15 years.
- New mechanisms should have a long-term time horizon, preferably extending through to 2050.
- If the new mechanism is divided into periods or phases, rules should clearly state the criteria for renewal of any crediting period.

Be predictable in implementation

- In order to encourage investment, benchmarks that are likely to change rapidly with technology penetration rates should be set at a guaranteed level for a certain number of years before they are adjusted.
- For any new mechanism in which the host-country or other regulatory body has discretion over the applicability of benchmarks to a certain installation, the criteria for evaluation should be set out in advance to allow investors to assess investments prior to site-specific regulatory approval (i.e. determine whether a particular installation belongs in the sector).
- Host countries and other regulatory bodies involved in the oversight of new mechanisms should commit to set timelines for the determination and update of baselines, among other activities.
- In the case that mandated oversight bodies experience difficulty in monitoring participants within a sector, contingency support structures to determine and update baselines should be put in place.

Operate under the rule of law in a non-discriminatory and transparent manner

- Decision making processes should be transparent and consistent, so that similar projects receive similar treatment.
- There should be clear procedures for how investors or their agents to clarify rules with the regulatory body, and simple and effective appeals mechanisms for parties seeking review of decisions.
- The new mechanism should not discriminate against international, as compared to domestic, investors by limiting or restricting their participation.
- New mechanisms should be underpinned by domestic legislation and rule of law, but should allow for resort to international law or courts of arbitration if appropriate.
- The implementation rules of new mechanisms, and any changes to them, should be widely communicated in an internationally accessible medium and made available in English as well as local languages.

Ensure efficient and professional governance

- Mechanisms should be adequately supported with information technology and institutional infrastructures. The funding could be generated through either public funding, fees charged to project participants, or a combination of both.
- The system should be overseen by competent professionals with experience in relevant technical and scientific fields, as well as markets and investment.
- Bureaucracy should be minimized, and strong commitments from the oversight body should be given for project registration and review timelines.

For more information please contact: Alexandra Galin, Manager, Policy and Working Groups, alexandra.galin@cmia.net