

To the members of the
UNFCCC CDM Executive Board

Regarding: Call for inputs – Regional distribution of CDM project activities

Dear Members of the CDM Executive Board,

In reply to your call for inputs concerning “systematic or systemic barriers to the equitable distribution of clean development mechanism project activities and options to address these barriers”, I would like to make the following few remarks.

The key “systemic” problem with the CDM in this context lies in the fact that its projects are distributed through market mechanisms, which by their very nature are not about fulfilling sustainable development criteria, nor about achieving a fair distribution of the projects and investments involved in them.

The only way to address the issue of both sustainable development and equity is to introduce constraints on these market mechanisms and/or additional mechanisms which are more likely to deal with these issues. As concerns equity, the latter seems to be the only practicable way forward. For one, it would be nonsense to allocate some sort of project quotas to countries in trying to address the issue of an equitable distribution of CDM projects. If a country emits very little, then it does not help anybody if it is granted an “equitable” quota (however defined) of projects. To be allowed to reduce emissions, if there are no emissions to be reduced, is not particularly meaningful.

Except, of course, if these quotas are themselves given a value, for example, by turning them into tradable “Carbon Emission Reduction Permits” (CERPs), as suggested in the attached article from the *Yearbook of International Co-operation on Environment and Development* (YICED) 2002/2003. If the position of some of the lead developing countries on equitable allocations of emission rights – i.e. in proportion to population size (‘per capita allocation’) – is applied, then the three large developing country emitters (Brazil, China, India) still receive more than half of the total allocated CERPs. Instead of being left empty-handed, however, the lowest emitting countries, say from Sub-Saharan Africa, would also get a significant share (around 15 percent), the surplus of which they could (potentially) sell to the large CDM host countries, with revenues possibly earmarked for sustainable development purposes.

Why should the large emitter DCs subscribe to such a scheme? Apart from being able to show solidarity with their poorest neighbours, the scheme would allow all host country governments – regardless of emission size – to generate at least some revenue from the CDM for themselves by auctioning the CERPs domestically. This said, it is clear that the

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introduction of such a scheme would add additional transaction costs on the CDM, which is already disadvantaged relative to the other Kyoto mechanisms due to the Adaptation Fund levy. If the demand for CERs is weak, the whole scheme might not work at all, as the large emitters might in that case be able to cover their projects with their own CERPs.

Consequently, the scheme only makes sense if a minimum demand for CERs can be guaranteed. One way of doing this – also discussed in the attached YICED article, and elaborated in Axel Michaelowa’s contribution to *Framing Future Commitments* (OIES Working Paper EV32, June 2003) – is to have *industrialised* countries take on Carbon Emission Reduction Obligations (CEROs), as part of their emission reduction commitments. Indeed, it stands to reason that such a minimum demand for CERs could be one of the key ways of addressing developing country emissions *without imposing an unfair burden*.

I would be happy to discuss these ideas further at your convenience.
For the moment, I remain

with best wishes,
sincerely yours



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Attachments (available for downloading at www.OxfordClimatePolicy.org):

1. Benito Müller, *Framing Future Commitments: A Pilot Study on the Evolution of the UNFCCC Greenhouse Gas Mitigation Regime*: Oxford OIES, 2003 [Executive Summary reprinted in Oil, Gas, and Energy Law Intelligence (OGEL) No. 1, 2004, special feature on Climate Change Christian Egenhofer (ed.)]
2. ‘The Global Climate Change Regime: Taking Stock and Looking Ahead,’ in Olav Schram Stokke and Øystein B. Thommessen (eds.), *Yearbook of International Co-operation on Environment and Development 2002/2003*, London: Earthscan, 2002:27-38. Reprinted in Velma I Grover (ed.), *Climate Change: Five Years after Kyoto*, Enfield (NH) USA and Plymouth UK: Science Publishers Inc, 2004: 30-051, and as ‘Reviewing Global Climate Change: Northern and Southern Agendas, *Journal for Energy Literature*, Vol. IX, Issue 2, 2003: 3–25.