

TABLE 3: HOW COULD THE CDM ASSIST IN THE TRANSFER OF CERs

Description	Pros & Cons
Option A: Establish a CDM Carbon Fund	
<ul style="list-style-type: none"> ⊕ Would act as a market intermediary by establishing a network of private and public investors in Annex I countries to fund CDM projects in developing countries. ⊕ Would provide an efficient mechanism for buyers and sellers to exchange CERs. ⊕ Would consist of a well-diversified portfolio of emission reduction projects arranged via standardized deal-making. ⊕ Under such an arrangement, a carbon fund manager could be appointed to develop strategies to mitigate project portfolio risks. ⊕ The project fund manager could be a CDM Secretariat member, if such an entity is created. ⊕ Alternatively, the carbon fund could be housed within one of the implementing agencies. 	<ul style="list-style-type: none"> ⊕ An analogy for this fund is the World Bank=s Prototype Carbon Fund ⊕ Could reduce transaction costs and risk exposure through portfolio diversification. ⊕ Although transaction costs associated with such a fund are likely to be lower than those with direct project investments, carbon fund management costs will not be negligible. ⊕ Given the risks associated with developing projects in developing countries, devising an effective investment strategy for a portfolio of such projects will be difficult. ⊕ Investors= confidence in such a fund will depend on the credibility of the fund manager ⊕ Costs associated with investment strategy development and fund manager compensation will increase transaction fees. ⊕ Exchange rate risks could further increase these costs unless appropriate strategies are employed to hedge CERs against currency fluctuations through options markets.
Option B: Allowing Trading Through Bilateral/Multilateral Agreements <i>(Interdepartmental preference)</i>	
<ul style="list-style-type: none"> ⊕ Would allow private and/or public sector entities interested in obtaining CERs to directly participate in project decision-making and development activities. These activities include: finding project partners, proposal preparation, GHG estimations, contract negotiation, host country approval, monitoring, etc. ⊕ Alternatively, project investors could work through a broker, who could identify viable projects and perform any number of the required project activities on the investor=s behalf. ⊕ Depending on the number of project participants, project agreements could be bilateral or multilateral in nature. 	<ul style="list-style-type: none"> ⊕ Such agreements would reflect a process of project negotiation and development similar that supported by many national AIJ programs under the AIJ pilot phase. ⊕ Lessons learned during the AIJ pilot phase could be easily applied to the CDM project development process. ⊕ Given the wide range of somewhat complex and time-consuming activities involved in developing a CDM project, the transaction costs associated with direct participation in project development may be prohibitively high. ⊕ Some investors may want to obtain CERs without getting involved in project decision-making and development activities.
Option C: Allow Non-Annex I Entities to Trade CERs Generated by Projects without Annex I Participants. <i>(Canada is opposed)</i>	
<ul style="list-style-type: none"> ⊕ The CDM EB would be responsible for providing guidelines for eligibility and potentially for reviewing the application for CERs. ⊕ The CERs generated through such projects could then be sold by developing countries to public or private entities in Annex I countries. 	<ul style="list-style-type: none"> ⊕ The Costa Rican model of Certified Tradable Offsets is an example of this approach.
Option D: Hybrid Approach.	
<p>Some investors may not want to directly participate in project development activities, and thus would find a carbon fund the most desirable means to acquire CERs. Others may want to maintain a greater level of control over their investments, or play a more active role in the project development process, and thus, may want to engage in bilateral agreements or direct trades with non-Annex I sellers.</p>	<ul style="list-style-type: none"> ⊕ CDM participants will have maximum flexibility in obtaining CERs. ⊕ could make the CDM both accessible and attractive to the wide range of buyers and sellers, and thus increase the overall number of entities participating in CER transfers ⊕ However, it may be difficult to manage multiple CER transfer mechanisms, and thus this option could increase overall CDM administrative costs.

TABLE 4:

SHOULD THERE BE RESTRICTIONS ON THE TYPES OF PROJECTS INCLUDED IN THE CDM?