

CDM Now

—How to Realize CDM Projects Successfully?

Climate Experts [Advisory Service on Climate Strategy]

Chair, Senior Research Fellow

Naoki Matsuo

E-mail: n_matsuo@climate-experts.info

<http://www.climate-experts.info/>

Climate Mitigation and Sustainable Development

- Choosing Less-Energy Economy is the key for Economic Growth
 - Japan: Good example
 - Technology transfer needed
 - Digestion of the technology in the host country needed...
 - Climate mitigation = Opportunity; NOT cost...
 - How to design the measures to make portfolio of other policy objectives
 - Maximizing "co-benefits"
 - Energy cost reduction
 - Local environment protection
 - Local employment
 - Energy security
 - ...
-

Role of CDM

- New Channel
 - Mutual understanding between South and North
 - Opportunity to realize benefits by emission reductions
 - Transfer of technology and money
 - New emerging market of GHG emission reductions
 - New business opportunities and compliance tool for Annex I
 - Also new businesses for non-Annex I companies (emerging interest)
 - Issues remain...
-

CDM Now

1. Introduction of CDM to Kyoto Protocol as the "Bridge" between South and North 1997
2. Marrakech Accords + CDM Executive Board establishment 2001
3. Detailed rule preparation [with 3 Panels] 2002-03
 - ◆ Accreditation of the Operational Entity (validator/verifier)
 - 18 entities proposed (2: non-Annex I). 1st OE to be designated at COP 9
 - ◆ Small scale CDM
 - Definition, Indicative list of methodologies, Simplified procedures
 - ◆ Baseline and Monitoring Methodologies
 - PDD template (version 01)
4. Approval process started 2003
 - ◆ New methodology approval
 - 2 methodologies just approved (EB 10); 4 to be approved (EB 11)
 - First CDM project will be registered in early 2004 (?)
 - Methodologies approval process: every 2 months
 - http://cdm.unfccc.int/EB/Panels/meth/PNM_Recommendations/

Issue Mapping

- PDD – Additionality/Baseline and Methodology
 - How to make the project as CDM?
- DNA – Host country institution
 - How to invite foreign investment?
- Domestic incentives – Investing country
 - Utilization of CER in domestic emissions trading scheme?
- Project selection
 - What types of project are promising?
- Financing the project – Carbon financing
 - Still unknown in the financial sector
- Sustainability – Public money utilization
 - Small-scale, community-based, ...
- Needs-Seeds matching – How to find the project?

CDM Project Cycle and Associated Risks

Project Design

..... Designing the “additional” project?

PDD Drafting

..... Find out capable consultant?

New Methodology Approval

CDM EB

..... Approved without delay?

Validation

OE

..... Registered as CDM without delay?
(incl. host country’s approval)

Project Implementation

..... Planned performance? Without delay?

Monitoring

..... Is monitoring good enough?

Verification/Certification

OE

CERs Issuance

CDM EB

..... Planned amount of CERs issued?

Compliance Tool

Sold in the Market

..... Market price hover around?

CDM Project-Cycle – Validation

PDD Drafting (with New Methodology)

Submit to CDM EB through OE

Expert desk review + Public comments

Meth Panel recommendation

Judgement by CDM EB

A-rated: Approved

B: Resubmit to Meth Panel

C: Not approved

Validation by OE

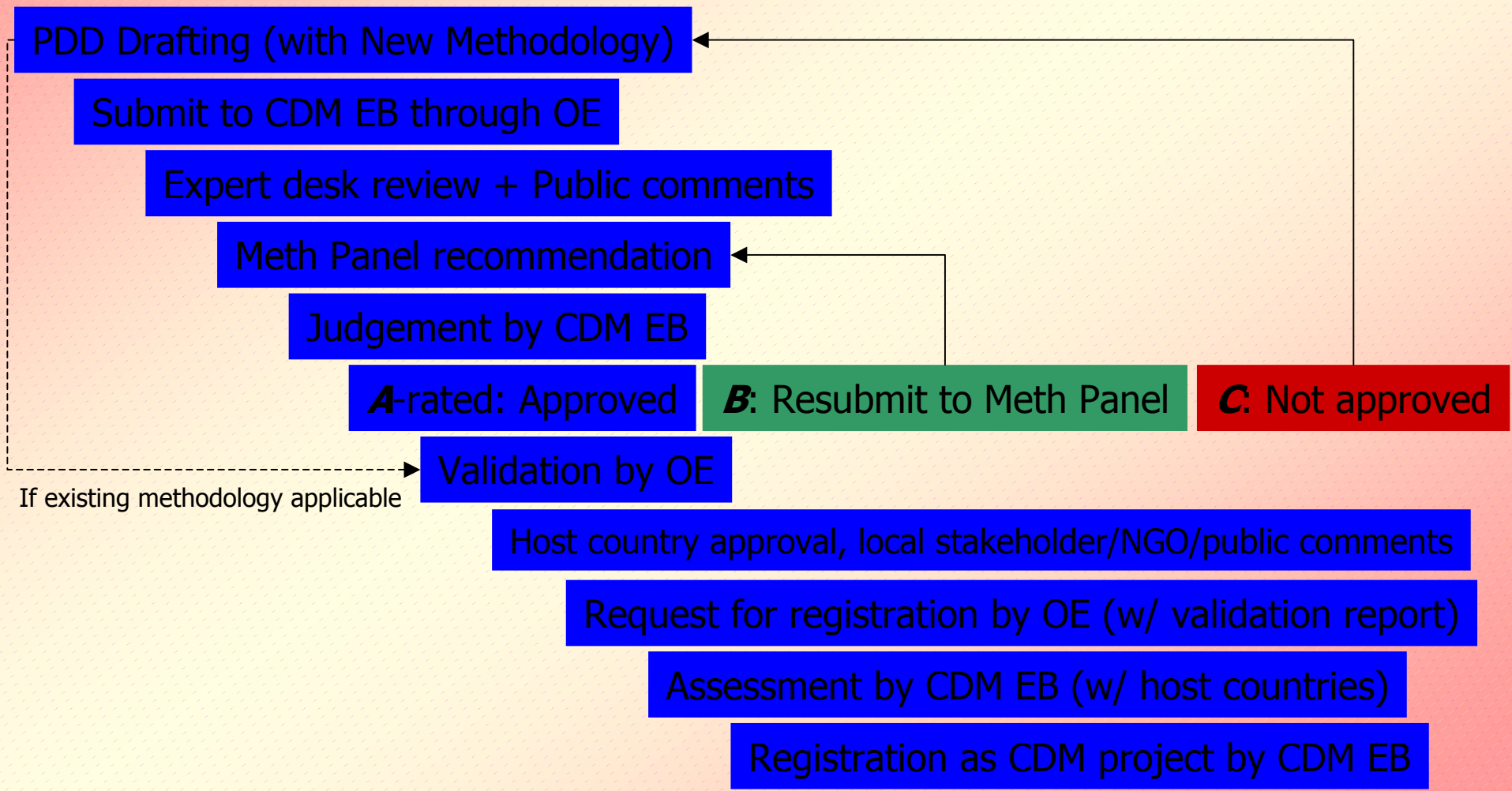
Host country approval, local stakeholder/NGO/public comments

Request for registration by OE (w/ validation report)

Assessment by CDM EB (w/ host countries)

Registration as CDM project by CDM EB

If existing methodology applicable



PDD and Methodology

- New Methodologies in Annexes 3 (baseline) and 4 (monitoring) of the Project Design Document
 - Not easy task...
 - Submission: 1st round: 14, 2nd: 2, 3rd: 9, 4th: 14, ...
 - Only **2** approved in the 1st and 2nd round; **4** approved in the 3rd.
 - Approved ones provide good examples
 - Once failed, around a half year delayed...
 - Problems
 - Many skills needed...
 - What is "methodology"? How to describe methodology?
 - What is "additionality"? How to demonstrate additionality?
 - What is "baseline"? How to identify baseline scenario?

Methodology, Additionality and Baseline

- Methodology
 - Describe the proper noun by linguistic words
 - Assume a conceptual/virtual generalized project
 - Additionality
 - The same project would not be implemented if the project is not registered as CDM project
 - Demonstrate why it is not "anyway" project
 - Baseline scenario
 - Several possible scenarios are assessed...
 - Local regulation, investment analysis, several barriers, ...
 - Demonstrate logical and reasonable conclusion
 - Express as a mathematical formula/algorithm
-
- How to describe the additionality/baseline as methodology?

Host Country's Institution

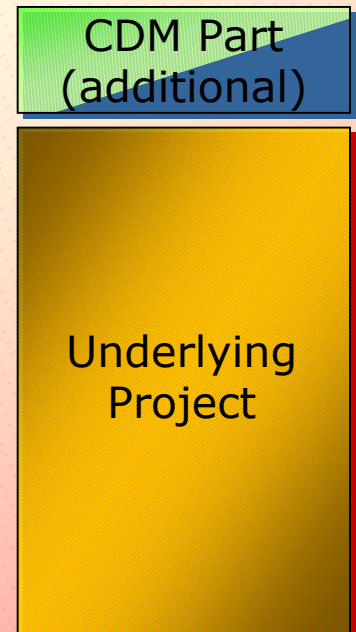
- Designated National Authority (DNA)
 - How to establish/maintain the DNA?
 - How to reduce bureaucracy and enhance efficient decision-making?
 - How to call domestic entities' attention to this new business
 - Latin-American countries' experiences
 - Risks associated with host country's CDM policy is crucial to invite CDM projects
 - e.g., many projects proposed in Latin American countries which already established their CDM policy and DNA
 - AIJ experiences are important
 - Clear process and criteria for approval process and supporting scheme
-

Domestic Incentives in Annex I

- Clear incentives needed...
 - e.g., domestic emissions trading scheme
 - Government's procurement
 - Carbon funds
 - Other supports
 - Information, negotiation, ...
 - Responding to the uncertainties
 - e.g., independence of the KP entry into force
 - Anyway, CER is fungible in the EU-wide emissions trading scheme
 - Existing of the market
-

Project Selection and Financing

- Design non-CO₂ gases reductions and/or renewables
 - High GWP gases enhance the profitability of CDM project
 - e.g., Landfill CH₄, HFC decomposition, CH₄ in biomass residue, ...
- Design other values than GHG reductions
 - Maximizing co-benefits
- Underlying project + CDM part (additional reductions)
 - Underlying project:
OK for profitable or ODA project
 - Utilization of higher technology
 - Risk reduction
 - How to finance underlying part?
- Financial sector people have not known carbon-related value yet...



How to Utilize Public Money in CDM

- Public funding for CDM projects is not to result in the diversion of ODA...
 - ODA utilization and Sustainability judged by the host country
 - Consultation between host/investors needed on needs/possibilities
 - Financing the project by ODA
 - Underlying part by ODA + additional reduction part (CDM part) by others
 - Screening the on-going/planned ODA projects and assess the possibility for additional GHG reductions
 - Sustainability-oriented project implementation and support (by packaging with other project)
 - Example: PV project in small island states
 - Redress the regional imbalance of CDM projects
 - Private participants focus on profitable geographical region
 - Supporting smooth implementation of CDM projects
 - Capacity building
 - Information clearinghouse role to match needs and seeds, etc...

Matching Needs and Seeds

- Status-Quo
 - Ad-Hoc based needs-seeds matching
- How to invite needs?
 - Capacity building
 - private sector, (central/local) gov't officials, NGOs,...
 - Institutional
 - DNA and others(?)
- How to invite seeds?
 - From Annex I
 - (ir)regular business forum in Annex I
 - From non-Annex I
 - financial sector, private sectors,
- Role of Information Clearinghouse Needed...
 - Internet-based institution
 - Other channels...
 - Who plays?
 - Host (central/local) government, Investor government, MDB, Private sector, ...