Market experiences: Current and Future CDM Trends

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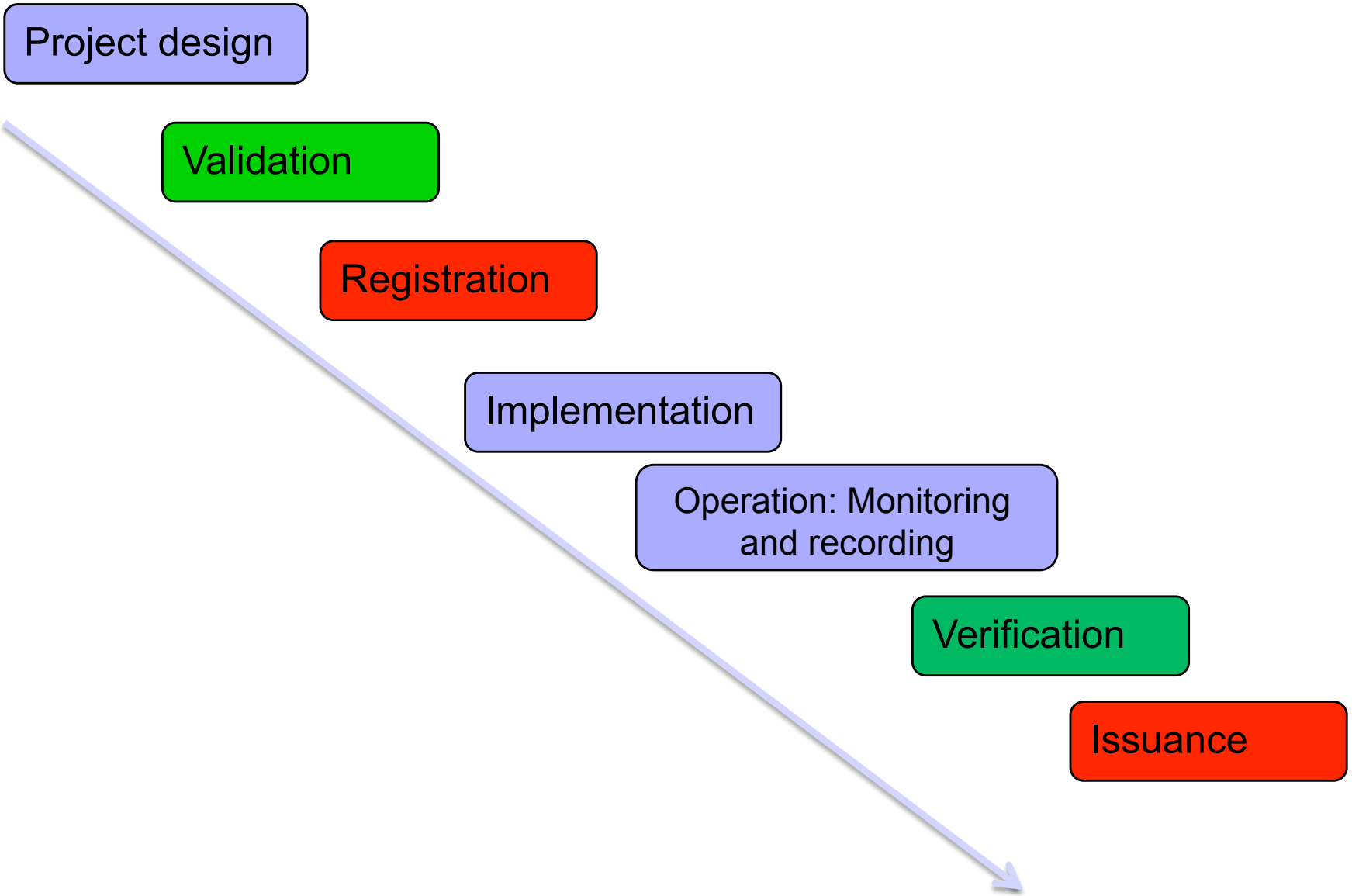
Presentation overview

- CDM overview
- CDM key characteristics & cornerstones
- CDM process issues
- Project types and methodologies
- Present status
- Future prospects
- Conclusion

CDM Key characteristics:

- Project-based offset mechanism under the Kyoto Protocol
- Reducing emissions AND contributing to sustainable development
  - Cost-effective mitigation
  - Sustainable development a host-country prerogative to decide:
    -Variable outcome...
- Strong governance model
  - Executive Board
  - Designated Operational Entities (verifiers)
  - Panels and working groups
  - Comprehensive secretariat
- Involvement of developing countries
- De facto the global benchmark for offset mechanisms
- More than 1180 (1186) projects registered, with 202 Mt CO2e in mitigation potential until 2013

The CDM process



CDM ”cornerstones”

1. Methodologies (baseline and monitoring requirements)
2. Additionality (supported by the ”additonaliy tool”)
3. Third party verification (supported by accreditation)
4. Public scrutiny (local and global stakeholder processes)

These are meant to create environmental inegrity, confidence as well as robustness of the mechanism.

However, at present one may ask how solid all of these cornerstones are.....

Project types

Presently a total of 118 approved CDM methodologies (industrial, agriculture, small-scale, afforestation/reforestation....) in place...

Methodologies are very detailed, complex, rigourous and to some extent project specific.....

Majority of registered projects related to:

- Energy (mostly supply)
- Industrial gases (HFC 23 and N2O)
- Waste heat recovery and coal mine methane
- Cement
- CH4: Landfill gas, methane avoidance, methane capture
- Industrial (power generation efficiency, refinery efficiency, flaring reduction, aluminium)

- Very few projects in the last category, as well as in transport.

Project approval

Validation by a Designated Operational Entity (DOE) is a prerequisite for project registration, through the assessment of :
-Project design documentation
-Project eligibility and baseline
-Monitoring plan
-Project additonality

Following a successful validation of the project PDD the DOE recommends the project for registration with the CDM Executive Board.

Unless the board requests a review on some of the project documentation, the registration will be automatic 8 (4) weeks after the request is acknowledged.

This process is at present far from automatic....

Implementation, crediting

- A registered project is not allowed to change characteristics without CDM-EB consent (”Request for deviation”). Nor is it allowed to make any changes in the registered monitoring plan without this.
- This adds significant uncertainty to the project, particularly in cases where the project takes a long time from the drawing board/validation until implementation.
- The above is one of the key reasons for project ”underperformance”.
- An extremely detailed and rigourous assessment of monitoring (material as well as immaterial issues) is applied, with no automatic approval of requests for deviation.

Present status

- We have observed:
  - An enhanced UNFCCC secratariat with more technical expertise
  - More tools available
  - More delegation to the meth panel
  - Increased number of methodologies
  - More guidance documentation and a catalogue of decisions
  - Introduction of programmatic CDM
  - Validation and verification manual from the CDM-EB...

  and....
  - Increase in review actvities
  - Increase in rejected project activities
  - DOE constraints
  - Lack of trust among the players
  - Buraucratic and convoluted processes
  - Damaging retroactive decisions

Future prospects (pre 2013)

- Decrease in projects until new international agreement is in place
- Reduced inflow of proposed new methodologies (”Why should I bother?”)
- Increased project scrutiny
- Better tools and guidance
- Redefinition of DOE scope vs CDM EB and Secretariat, and less DOEs

•Parties (countries) will add to future uncertainty with post 2012 proposals...

Future prospects (post 2012)

- Phase out of some of the early low-hanging fruits (?)
- Sectoral benchmarks
- Inclusion of carbon capture and sequestration
- More business/market interaction and influence (?)
- Long term goals and more regulator predictability
- Projects registered pre 2013 eligible for crediting until end of 7 or 10 years

-Wishful thinking....?

Key parts of the present CDM will be retained, but the scope will be extended and transparency as well as involvement increased

Conclusion

- Robust mechanism, kay characteristics well designed
- Opaque, not fully transparent regulatory process
- Capacity deficiencies in key areas among regulators, little willingness to interact with outside players or increase capacity
- Lack of trust among key players remains a problem
- Capacity contstraints and bottlenecks
- Many features can work as a benchmark for other programmes