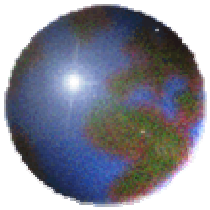

Executive Briefing CDM (Clean Development Mechanism)

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Key elements CDM

- Kyoto Protocol: CDM shall contribute to:
  - Sustainable development in host countries
  - Mitigation of climate change
  - Cost effective achievement of committed reductions in countries with reduction commitments
- 6 greenhouse gasses:
  - CO2 is most known
  - reductions are expressed as CO2-equivalent (CO2-eq)
  - Certified Emission Reductions (CERs): 1 ton CO2-eq
- Emission reductions of CDM projects shall be:
  - real and additional → additionality and baseline are key
  - measurable and verifyable

Main players CDM

- Project proponents (PP):
  - Organize financing and develop the project
  - Initiate CDM procedure
  - Monitor and report emission reductions
- Host Country:
  - Assess contribution to sustainable development
  - Issue Letter of Approval (LoA)
- CDM Executive Board (EB):
  - Accredited DOE (Designated Operational Entity) check
  - Register (or reject) project
  - Issue CERs
- Buyer of CERs:
  - Private contractual relationship with PP

Main procedural steps & elements

- PIN (Project Idea Note) → find buyer CERs
- PDD (Project Design Document) → submit project for registration (= approval) to EB
- Local stakeholder consultation
- Letter of Approval (LoA) from host country DNA (Designated National Authority)
- Validation report from DOE, confirming compliance with EB rules
- Monitoring report + verification report DOE, confirming compliance with registered PDD

Host Country Letter of Approval (LoA)

- Issued by DNA (Designated National Authority)
- Elements in Host Country LoA:
  - confirm that the project contributes to sustainable development (SD) in Host Country
  - Host Country is Party to Kyoto Protocol
  - Host Country participates voluntarily in CDM
  - Host Country authorizes Project Participant(s)
- Assessment of contribution to SD is prerogative of Host Country
- Detail or depth of SD assessment is free

Contents of a PDD

- Project description + project boundary
- Selection of applicable methodology (approved by EB in advance)
- Demonstrate additionality of the project
- Determine baseline emissions + leakage
- Calculate expected emission reductions
- Monitoring plan
- Start and duration crediting period
- Environmental impacts (not specific to SD!)
- Stakeholder comments

Additionality, baseline and emission reductions

- Additionality:
  - Project is not Business-as-usual, or
  - Project would not have happened anyhow:
    - Show that alternative would have been financially more attractive
    - Show that considerable barriers exist
  - Is counterfactual evidence
- Baseline:
  - "Business-as-usual" emissions
  - Must refer to emissions in most likely scenario
- Reduction = Baseline – project emissions – leakage

Remarks on draft PDD

- Clear project boundary
- Early starting date / start crediting period
- Large or small scale methodology
- Additionality (many barriers)
- Growth rate of baseline and project emissions

Major developments/concerns in EB

- EB does <u>not</u> assess contribution to SD
- Large number of methodologies available
- Application of additionality and baselines
- Programmatic CDM
- Quality and performance of DOEs
- Large number of (requests for) reviews
- 5 – 10% of projects rejected (mainly additionality)

Dutch CDM implementation

- Government (VROM) buys 50 Mton CO2-eq
- VROM is triple-A rated buyer
- Intermediaries explore, select and contract individual projects and organize CDM procedure EB
- VROM approves major steps for each project
- Several tracks (gain experience, reduce risks):
  - Procurement (closed now)
  - Multilateral banks e.g. World Bank
  - Private banks e.g. Rabo Bank (closed now)
  - Community Development Carbon Fund (World Bank)
  - Bilateral cooperation with FMO on Africa