

Editorial

Dear Reader,

"South Korea doubles its emission reductions target." The date for the launch of Korea's emissions trading scheme has been postponed, and its new emission reduction targets could be more ambitious. Nonetheless, headlines like this attract attention. While the EU has announced that it will not be increasing its 2020 target, the emissions trading schemes planned by countries like South Korea, China and Mexico are providing stimulus for the carbon market despite the fact that any linking of the various systems remains a vision for the future.

In the world of the Kyoto Protocol, the final report on the CDM Policy Dialogue has been published. While the recommendations put forward by the High-Level Panel were in line with general expectations, there were some surprises – such as the creation of a carbon market central bank. JIKO Info looks at and comments on the report in detail.

The carbon market of the future will be based on completely new structures and processes. Thus, the report by the interdisciplinary Policy Dialogue Panel should act as an incentive for experts to think beyond current lines and constellations. The upcoming Climate Change Conference in Doha provides a perfect platform on which to do so.

On behalf of the entire JIKO Info team, I wish you an interesting and informative read.

Christof Arens

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JIKO Analysis

CDM: Dry dock reform?

Von Silke Karcher und Thomas Forth, BMU

The debate on the future of the CDM has entered a decisive phase. The reforms recommended by the High Level Panel on the CDM Policy Dialogue contain constructive options for further development of the CDM. And they go beyond 'business as usual', highlighting both existing deficits and necessary changes. Against the backdrop both of these recommendations for reform and the decisions of the upcoming Climate Change Conference in Doha, the situation is reminiscent of the early days of the CDM's development that led to the Marrakesh Accords following the signing of the Kyoto Protocol in 1997. The Accords were not, however, a self-contained framework. The CDM was subject to a bottom-up approach following a long and drawn up review process. Thus, the findings of the CDM Policy Dialogue effectively mark the preliminary conclusion of the review phase which, with the appointment of an external panel, allows a more objective look at the CDM. Despite numerous improvements, the CDM is still in need of fundamental reform.

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JIKO Commentary

The Emperor's New Clothes:

CDM Reform without CER Demand?

by Axel Michaelowa, Perspectives and University of Zurich

The report of the High Level Panel on CDM Policy Dialogue has rightly pointed to the painful issue of lacking demand for emissions certificates. Nonetheless, the Panel's recommendations are to an extent inconsistent and repeat proposals which though often made in the past could not be implemented for political reasons. For example, the integration of sectoral mechanisms and forest conservation would increase the supply of emissions certificates significantly. And a sustainability assessment conducted by UN bodies cannot be enforced for reasons of sovereignty. Furthermore, the Panel was able neither to stop nor reverse the erosion of trust in the CDM being the right road to efficient emission reductions in developing countries.

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JIKO Analyse

CDM: Dry dock reform?

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Dr. Silke Karcher, is head of EU Affairs Climate and Energy, New Market-based Mechanisms at the German Environment Ministry

However, the situation is very different compared with the days following the signing of the Kyoto Protocol. Expectations that the CDM and JI could be used to meet industrialised states' climate policy targets fostered development of the rules on the market-based mechanisms over the years. That optimism was not even harmed by the uncertainty surrounding the entry into force of the Kyoto Protocol, which greatly burdened the process due to Russia delaying its ratification of the Protocol. The market-based mechanism experiment was designed first and foremost to make investment by industry more climate friendly. Looking at primary market activities purely from a climate change policy perspective, the most intensive phase was seen between 2006 and 2010.

Market-based mechanisms can and should contribute to improving the carbon balance by ensuring that additional investment in emission reduction activities also replaces emissions-intensive investment in industry. Securing this effect remains a key component of the CDM reform. Solutions to this problem must, however, take account of the degree of social prosperity in and the economic performance of a given country. There are thus strong differences in the need for various groups – such as least developed countries (LDCs), middle-income developing countries and emerging economies – to participate in global climate

change activities and those differences must be reflected in the design of market-based mechanisms.

On the other hand, participation of the industrialised nations in using the market-based mechanisms will once again have to be subjected to greater debate. The potential demand side lacks ambitious goals that would foster interest in use of the CDM and JI and of any new market-based mechanisms. Other than in the run up to the Kyoto Protocol, and the agreement that flexible mechanisms could be used to meet climate change targets, the current lack of global willingness to announce appropriate climate change targets that are coupled to achieving the two degree goal is paralysing. In reality, the prospects for the CDM in the primary market are bleak. The incentives that were built on the reduction targets for the first Kyoto commitment period have since been exhausted. The current CER prices of under €2 in the secondary market are not the only factor preventing new investment in CDM activities. The primary market for the CDM had slumped as early as 2010 and is now virtually non-existent. From a legal perspective, the CDM and JI could continue if the international community is able to reach the necessary decisions in Doha. It remains questionable, however, whether the emission reduction targets currently being discussed can

Exhausted? The primary market for CERs is practically non-existent. And the announced reduction targets for industrialised countries place continuation of the CDM in question. Increasing the EU target to 30% also appears to be completely out of reach.

Photo: photocase.com © jogen



CDM Facts & Figures

Who benefits from the CDM?

USD 3.6 million net gain from CERs for industrialised countries
 USD 215 billion generated in investment in developing countries

Balance 2008 – 2012 (First Kyoto Commitment Period)

More than 1 billion CERs issued
 More than 4,500 registered projects

Balance 2008 – 2012 (without HFC23, N₂O/Adipic Acid)

374 million CERs issued
 More than 4,500 registered projects
 (after excluding 22 HFC23 and 75 N₂O projects that can no longer be used in the EU ETS)

CDM Projects in LDCs

49 registered CDM projects conducted in LDCs
 10% of the global PoA pipeline stem from LDCs

Source: CDM Policy Dialogue, UNFCCC



Thomas Forth, a political scientist, has served for many years as an advisor to the Joint Implementation Coordination Office (JIKO) at the German Environment Ministry's Department of EU Affairs Climate and Energy, New Market-based Mechanisms.

actually secure the future of the two mechanisms. It makes sense, then, to look both at which countries the CDM and JI are to be used for in the coming years, and how real investment in emission reductions can be generated. Against this backdrop, there seems to be no way around refusing industrialised states the option to use JI if they do not agree to targets in the second Kyoto commitment period.

Nonetheless, rigorous rules regarding eligibility to use the mechanisms will not solve the lack of demand – unless, that is, an unexpectedly successful outcome from Doha results in (at minimum) the reduction targets being linked to the conditions formulated back in Copenhagen. But what appears likely at this point in time is that the industrialised states will be called upon to provide separate solutions to ensure the carbon market can continue until such time as a new climate change agreement for the period beyond 2020 is in place.

This raises the question as to whether and to what extent demand can be generated other than with a global agreement. Despite examples like the EU and Australia, demand of this type can be expected to be very limited given what are generally inadequate climate change goals. It is likely

that demand will be limited to suitable instruments, country groups, project types and inclusion in host country climate policies. One reason to have any hope at all in this regard is the carbon market's expected contribution to the global carbon fund, which is designed to mobilise some USD 100 billion in additional funds from 2020 onwards.

Against this backdrop, the final report from the High Level Panel on the CDM Policy Dialogue is of great importance. Many of the recommendations can be used to provide the wording for CDM-related decisions at Doha. Some of them go way beyond Doha, however. They call not only for the existence of demand markets, but for the further development of the mechanisms (sectoral CDM), the establishment of framework conditions and capacities in host countries, and the use of CDM structures, processes and instruments both in the new mechanisms (NMM, NAMA) and in the institutions (GCF) of the international climate change regime. These measures will all be necessary to secure the availability of revised and new market-based mechanisms when a new, all-encompassing climate change agreement enters into force.

JIKO Commentary

The Emperor's New Clothes:
CDM Reform without
CER Demand?

Continued from p. 1



Dr. Axel Michaelowa, has worked on international climate change policy since 1994, combining research with practice: the former at the University of Zurich, and the latter at Perspectives, a business consultancy founded in 2003. Michaelowa has cooperated in the development/application of numerous approved CDM methodologies and has been a member of the CDM Executive Board's Registration and Issuance Team (RIT) since 2006.

When it comes to the Clean Development Mechanism (CDM), opinions have always differed greatly. Some criticise its low environmental integrity and poor contribution to sustainable development in host countries, while others see it as a blueprint for market economy-based climate change policy aimed at mobilising affordable emission reduction options. The huge upswing in use of the CDM in the middle of the last decade surprised critics and challenged the international regulatory bodies. That challenge led to a huge increase in staff at the UN Climate Change Secretariat; it now has 170+ employees working solely on CDM-specific issues. The teething troubles encountered with the CDM registration process have largely been overcome, while validation of project proposals and issuance of emissions certificates now run like clockwork. The billionth emissions certificate was issued this September.

The CDM market is nonetheless mired in inertia due to the uncertainty regarding binding emission reduction targets beyond 2012. Prices for carbon credits have dropped to a tenth of what they were five years ago. Merely the rule adopted by the EU, banning the import of credits from projects registered after 2012 unless they were generated in a least developed country (LDC), is causing a short-lived surge on the CDM market. But from 2013, all serious observers expect demand for emissions credits to freeze at a very low level; emissions certificates from certain project types such as industrial gas destruction could well become unsellable. More and more countries are blocking the use of CDM-generated certificates in their domestic emissions trading schemes.

Against this backdrop, the UN Climate Change Secretariat (UNFCCC) launched a dialogue process on the future of the CDM at the end of 2011. An 11-strong panel comprising high-level representatives from government and industry were tasked with discussing the CDM with interest groups around the world and then using their findings to draw up recommendations for CDM reform. The High-Level Panel submitted its report in September. Detailed background papers will be published in the coming months. The report rightly stresses the great services per-

formed by the CDM in attracting over USD 215 billion in investment in developing countries. But it in addition, it highlights the risk of a sudden collapse of the CDM market – something that would cause a tremendous set-back in international climate change negotiations. As a result, the Panel sees a need for direct market intervention and calls for purchase of emissions certificates using public money, for example through carbon funds. This recommendation makes sense in principle as long as the purchase does not benefit certain project types. What would be preferable is for industrialised countries to recognise CDM-generated certificates in their national emissions trading schemes and allow them to be counted towards other policy instruments. This would have the dual effect of boosting market liquidity while lowering price volatility.

The Panel's recommendation to introduce a central bank for carbon markets is contentious. When, and according to what criteria, would the bank act? What would be a good target corridor for emissions certificate pricing? As the problems experienced in setting the minimum and maximum prices in national emissions trading schemes have shown, these decisions are not easy to make.

Given the over-supply of certificates, the Panel's second recommendation of integrating forest conservation and sectoral approaches directly into the CDM rather than operating them as separate mechanisms appears unfeasible as it would perpetuate the over-supply. From a policy standpoint, the introduction of market-based mechanisms should be coupled with the willingness of industrialised states and of advanced developing countries to accept ambitious emission reduction targets. The UNFCCC's CDM capacity should thus be used to ensure that design of the new market-based mechanisms benefits from experience gained with the CDM.

I wholly agree with the recommendation to apply CDM methodologies to the Green Climate Fund. It would at least safeguard some CDM expertise should demand for certificates not be mobilised. By way of contrast, the recommendation to ex-

CDM Policy Dialogue Confirms CDM Integrity but Forecasts Market Collapse

The High-Level Panel established by the CDM Executive Board at the end of 2011 published its final report on 11 September. While the report documents an overall positive assessment for the CDM and recommends concrete improvements, it also warns against the threat of carbon market collapse due to poor demand. JIKO Info summarises the Panel's key findings.

The CDM Executive Board appointed eleven independent high level members to put forward recommendations on the reform of the CDM after the first Kyoto Protocol commitment period. The report is based on 28 official meetings held with CDM stakeholders as well as a series of informal talks. The minutes of all these meetings have been published on the Policy Dialogue website. In addition, the Panel commissioned research studies on 22 topics. These works will also be published in the near future.

The 90-page report puts forward 51 recommendations on 12 issues. Its key findings and recommendations include:

The carbon market has been instrumental in combating climate change. The CDM has effected emission reductions amounting to one billion tonnes and has generated investment of USD 215 billion. Industrialised countries have saved some USD 3.6 billion as a result. The CDM has helped developing countries identify their carbon reduction potential, develop national emissions markets, and build local capacity. Thus, the benefits of the CDM go far beyond the projects themselves.

According to the report, the CDM also fosters sustainable development in host countries in accordance with their own criteria. Yet there are, the report claims, some stakeholders who cast doubt on this effect. They believe that the lack of universally agreed criteria prevents the developmental benefits from being evaluated across the board.

- Despite this positive assessment, the report sees the carbon market in threat of collapse. Increased demand for certificates is urgently needed. Apart from more stringent emission reduction targets, the Panel recommends as an emergency measure the establishment of an institution that will buy up CERs. Another recommendation calls for an evaluation of whether some kind of central bank should be created to stabilise the carbon market.
- Secondly, the report continues, the CDM must adapt to the new conditions. For example, it should integrate sectoral approaches and/or national or sub-national approaches to reduce emissions from deforestation. Also, the CDM should set standards for harmonisation of the carbon markets currently emerging at national level and, to the extent possible, be linked to them. The Panel also suggests that experience gained with the CDM should be used to develop new financing instruments like the Green Climate Fund.
- Thirdly, the Panel considers that CDM processes and procedures must improve significantly and provide greater support to developing countries. While the significant improvements seen in recent years have negated some of the criticism, further improvements remain necessary. The process to prove additionality and set baselines should be further standardised, for example by using performance benchmarks and positive lists for automatic additionality. Also, better processes are needed to assess the sustainability benefits arising from CDM projects, with these processes then being monitored over the entire project lifecycle. Further, rules are needed to prevent projects having negative impacts such as the use of child labour.
- Fourthly, the report concludes that the CDM management processes must be improved to make the CDM an accountable and efficient institution. The CDM Executive Board should leave case-by-case decisions and technical issues to the UNFCCC, and make its own activities more transparent. Processes to hear complaints and objections must also be developed, while candidates for the Executive Board should meet clear eligibility criteria and be filtered by a selection committee.

WSt

Go or No-Go for the CDM?
Transport projects have so far been severely under-represented in the Clean Development Mechanism. The photo shows taxis sent for scrap as part of a CDM fleet upgrade project in Egypt.

Photo: A. Ibrahim, UNFCCC
Photo Contest



clude industrial gas projects is simply a kowtow to the spirit of the age; the Panel fails to recognise that arbitrary exclusion of a specific project type could spark a domino effect resulting in project types deemed overly successful being excluded at whim. From a policy standpoint, the recommendation that the UNFCCC should coordinate harmonisation of methodologies and rules for all market-based mechanisms would be very difficult to implement and enforce.

The third recommendation for CDM reform picks up on the CDM Executive Board's reform efforts so far and thus comes as no surprise. I am slightly taken aback by the naivety of some proposals. The recommendation to only review rules at certain points in time sounds good, but it does not allow faults to be remedied quickly as they arise. Standardisation using benchmarks is seen as the miracle cure in determining additionality. When the Panel says that investment analyses are subjective and non-verifiable, I believe this applies more to benchmarks that are based on purely political decisions. For reasons of sovereignty, many governments find it unacceptable that the extent to which CDM activities should contribute to sustainable development should be determined by

independent evaluation bodies and that the Executive Board can reject a project proposal on grounds of non-fulfilment of sustainability criteria.

The recommendations regarding reform of the Executive Board will also come into conflict with political reality. Observers have been calling for years to tighten eligibility criteria for EB membership, rule out conflicts of interest, reduce the length of tenure, and delegate project-specific decisions to the Climate Secretariat. The recommendation to relocate the issuance of emissions certifications to national/regional institutions is rather odd. How could they be prevented from issuing certificates at will?

In sum, it must be remembered that the CDM Policy Dialogue would have been of great benefit three years ago. Now, in the midst of the greatest crisis the UN emissions trading market has seen, it has not succeeded in giving the CDM a new lease of life. Few media have covered the report, and the CDM is seen as an outdated mechanism. The emperor stands naked and has no new clothes.

JIKO Analysis

N₂O Project Controversy Continues

Critics point to serious errors in baseline setting

by Christopher Brandt, Climate Concept Foundation



Rechtsanwalt Christopher Brandt (M.B.A.), is Executive Director of the Climate Concept Foundation. The non-profit organization works, among other things, to promote balanced climate change policy that serves environmental and economic needs.

Avoiding nitrous oxide (N₂O) emissions in nitric acid production is a lucrative CDM project type: Given clear additionality, these projects harbour large potential for greenhouse gas abatement. All such projects are based on the approved AM0028 and AM0034 methodologies. In mid-August, however, the CDM Methodology Panel recommended withdrawing these methodologies because of concerns involving the environmental integrity of the projects. So far, the CDM Executive Board has failed to act on this recommendation. This is despite the signs that new technologies are deliberately not being used in CDM facilities: The use of new technologies could reduce N₂O intensity in the production process. This would impact the revenue from the sale of CERs generated by the CDM projects involved.

N₂O is an unwanted by-product in the production of nitric acid. Because N₂O is effectively 'lost ammonia' (see diagram), efficient plant operation aims to reduce to a minimum the amount of N₂O that occurs in the combustion process.

While the relevant CDM methodologies contain steps to ensure a conservative estimate of the baseline emissions of a given facility, the CDM Methodology Panel has rightly recognised that these steps are insufficient. In setting the baseline, it is not only the plant's operational parameters, such as pressure and temperature in ammonia combustion, that are important. The type of catalyst nets used also plays a role.

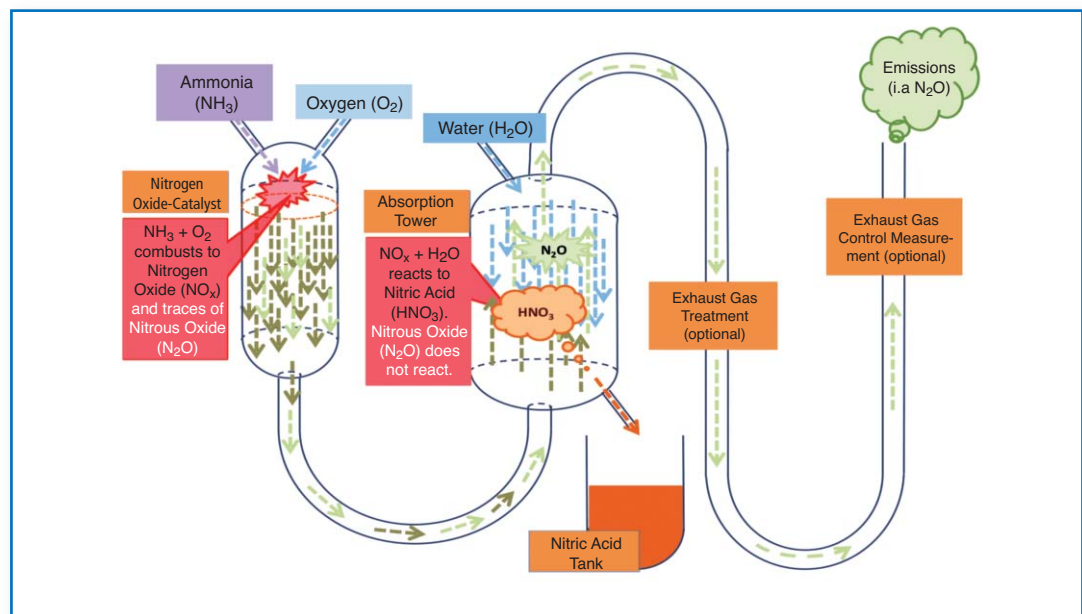
Palladium and cobalt-based catalysts

Use of alternative catalyst nets could, however, serve in setting the baseline scenario in many CDM facilities because their use makes economic sense. Palladium or cobalt-based catalyst nets are significantly less expensive than platinum nets.

However, with palladium-based nets, the amount of N₂O produced in ammonia oxidation is between 30 and 40 percent lower; and with cobalt-based nets as much as 90 percent lower. If calculation of baseline emissions were to be based on use of these types of catalyst nets, the base-

Nitrous oxide production. In the nitrous oxide catalyst located in the ammonia reactor (left), ammonia mixes with air and oxygen. This mixture combusts to produce nitrogen oxides (NO, NO₂, N₂O₅) along with traces of nitrous oxide (N₂O). In the absorption tower, the nitrous oxides react with water to produce nitric acid (HNO₃). The N₂O component does not react and is expelled into the atmosphere via the exhaust gas outlet. The choice of nitrous oxide catalyst influences both plant efficiency and N₂O intensity in the production process.

Diagram © Climate Concept Foundation 2012



line used in calculating anticipated emission reductions would drop accordingly.

As the revenue from the sale of CERs is more valuable than improved production efficiency and savings made on the cost of materials, evaluation of the use of non-platinum catalysts has so far not been included in project documentation submitted for CDM registration.

No guidance from CDM Executive Board

The CDM Executive Board has yet to make the necessary adjustments. In the Executive Board meeting held in mid-September, members of the CDM Methodology Panel said the data submitted was deficient. This contradicts the conclusions reached and recorded in the minutes of the Methodology Panel meeting held in mid-August.

This turn of events raised a number of eyebrows around the table at the EB meeting. No statement was made as to how and by when existing uncertainties might be overcome.

It is well known that different types of catalyst nets lead to variance in the ammonia oxidation process. This is an implicit component of the CDM

methodologies mentioned earlier: if a different type of catalyst net is used during the project lifecycle, baseline emissions must be recalculated. Only when setting the initial baseline emissions for a project do the project developers assume that continued use of the existing type of net will support the baseline scenario without them being in a position to provide convincing reasons to back their assumptions.

Designated Operational Entities

In many cases, the Designated Operational Entities (DOEs) are also closing their eyes to reality. Despite the numerous objections raised by the Climate Concept Foundation (CCF) during the Global Stakeholder Consultation process, two projects were registered although the catalyst nets problem had not been adequately solved.

The UNFCCC rejected two complaints the CCF made against the validating DOEs on the grounds that, in the course of validation by the DOE, the arguments put forward by the CCF had received due consideration. The registration process does not include any substantive analysis of the conclusions drawn. In other words, the validation decisions made by the DOE are not reviewed for their appropriateness.

Palladium, cobalt or platinum? Opinions differ on the type of technology that should be used in setting baselines for nitrous acid CDM projects. The photo shows a CDM facility in Chile.

Photo: L. Fredes/UNFCCC Photo Contest



Informative links:

"Available and emerging technologies for reducing greenhouse gas emissions from the nitric acid production industry", December 2010

<http://www.epa.gov/nsr/ghgdocs/nitricacid.pdf>

"Methodology for the free allocation of emission allowances in the EU ETS post 2012", November 2009

<http://www.ecofys.com/en/press/benchmarking-study-for-free-emission-allowances-made-public>

Environmental integrity at stake

It is unfortunate that the CDM Executive Board has not decided to withdraw the nitrous oxide methodologies. There are sound indications of the existence of erroneous baseline emissions calculations. Thus, in the interests of conservatism, new project registrations and any renewal of crediting periods for existing projects should be suspended until such time as this matter has been resolved.

Thought should also be given to the role played by the DOEs. It appears that the UNFCCC relies entirely on evaluations conducted by the validators. This is justified in principle. But if the Climate Secretariat is informed that the DOEs are taking the wrong approach to an entire project type, it

must review the practices of those DOEs. The CDM Executive Board is under obligation to the Conference of the Parties and must ensure that the environmental integrity of the CDM remains intact.

Looking ahead to the third period in the EU Emissions Trading Scheme (2013 to 2020), the EU Commission has reserved the right to exclude CERs from project types whose environmental integrity is questionable. As has already been seen with HFC23 projects, this kind of unilateral measure would only serve to weaken the CDM. But then again, the EU's response might be the only alternative if the CDM Executive Board fails to make the much-needed N₂O adjustments.

JIKO Analysis**Standardised Baselines: CDM Secret Weapon for LDCs?**

The expectations are high. Many observers hope that standardised baselines (SBLs) will make the CDM less complex, accelerate project approvals and iron out regulatory uncertainties. And they should also ensure greater use of the CDM in previously under-represented countries, especially the Least Developed Countries (LDCs) in the South, where many project ideas fail because of the high transactions costs involved with the CDM. Standardised baselines, instead, are expected to reduce the cost of baseline setting, making project development in LDCs financially more attractive. This article looks at the potential for SBLs in LDCs and highlights the obstacles in the way of broad-based SBL implementation.

Other than in the 'traditional' CDM context, standardised baselines are set on the basis of standardised assumptions as to the greenhouse gas emissions that would occur if the project were not

to be implemented. SBLs can be applied to all projects that fall within the baseline thresholds. They also enable several measures to be implemented within a given sector should a combined emissions factor be calculated for those measures. If the sector is not homogeneous, it can be split into sub-sectors with their own specific SBLs.

Setting standardised baselines is a data-intensive process. Depending on the sector concerned, vast quantities of data must be collated and analysed. The quality of that data must be very high to ensure the environmental integrity of the baseline itself. Even with readily available data, development of an SBL is a cost and effort-intensive process. The current rules see the main portion of the work falling to the Designated National Authorities (DNAs) in the host countries. They are responsible for submitting SBLs and for controlling the quality of the data used in baseline calculation.

JIKO Analysis

The current process

Only few CDM methodologies use standardised approaches for baseline calculation, and there are only a few studies on SBL use with differing project types (see the list of references at the end). Looking at the Least Developed Countries (LDCs), the following sectors are of key importance:

- CDM projects to provide more efficient lighting methods already use standardised approaches in some areas.
- Replacing open fires with cooking stoves offers great emission reduction potential. SBLs must, however, take account of local conditions and differing technologies.
- Increased efficiency in charcoal production is mostly suited to standardisation in southern and eastern Africa, because the production methods used (traditional charcoal kilns) are the same across all of the countries concerned.
- Brick kilns could use SBLs if methodologies are adapted to take account of regional or country-specific conditions.
- For drinking water purification and rural electricity supply, proposals for standardisation were recently linked to the use of existing CDM methodologies.

- The transport sector harbours huge emission reduction potential. This is, however, difficult to standardise using local approaches due to the sector's complex impact on the environment.

A proposal for standardised charcoal production SBLs has been submitted to the CDM Executive Board (EB), but has yet to be approved. Also, the EB is currently reviewing a proposal from Ethiopia for an SBL for large-scale projects in the Ethiopian cement sector. If the SBL is approved, it will replace the sections on additionality, baselines and baseline emissions in methodologies ACM0015 and ACM003. Finally, the EB has also received a proposal for a Grid Emissions Factors SBL which would cover the Southern African Power Pool and foster its use in renewable energy projects in countries in southern Africa.

Shouldn't there be more?

The development of new SBLs is a time, data and effort-intensive process. This causes difficulty for all involved. Conference of the Parties Decision 3/CMP.6 allows both top-down and bottom-up approaches in SBL development, meaning that both the EB and all other stakeholders in the CDM development process could in principle develop SBLs. The latter would, however, have to submit their proposals through the respective DNAs.

Energy-efficient fishing. Efficient lighting, such as replacing generic lightbulbs with energy-saving lightbulbs, or LEDs is a project type that is suited to standardisation and is of relevance for LDCs. The picture shows fishermen using energy-saving lightbulbs supplied in a CDM project to attract fish on Lake Victoria. Photo: Siemens Press Pictures



At the request of the CDM Executive Board, the UNFCCC recently began creating a database on the costs involved in and efficiency of selected technologies. This is still in the development phase. Top-down development of standardised baselines moves at a slow pace. This is no doubt due to the heavy workloads faced by both the EB and the UNFCCC secretariat. Hence, it remains unclear whether any significant progress can be expected in the near future.

The Designated National Authorities (DNAs) are to play a key role in implementing bottom-up developed SBLs. Unfortunately, the data needed to develop them, especially for LDCs, is often not available in the required quality, making it necessary to conduct time and cost-intensive studies. But given of the DNAs' poor technological and financial capacities, such studies are often not an option. As the baselines also need to be updated at regular intervals, the DNAs believe they will face follow-on costs when monitoring the respective data. There are fears that these necessities will eventually lead to a drop in SBL proposals because the DNAs could shy away from the effort involved, especially as they are already heavily burdened with the quality assurance controls connected with other SBLs.

Given the tremendous effort involved in SBL development, it appears unlikely that project developers will be prepared to take on this extra work without further incentives. With small-scale projects, which promise less profit than large-scale projects, the initial investment needed would prove highly off-putting. In addition, there is the difficulty of calculating the risk that the SBL would not be approved quickly, and that this would lead both to a delay in its benefits being felt and to an unsettled future for the carbon market. Equally unattractive for project developers is that approved SBLs become a public good. This is the reason why no additional profit can be expected from SBLs themselves.

The CMP decision also allows other stakeholders to become involved in the development of standardised baselines as long as the SBLs are submitted through the respective DNAs. These other

stakeholders could be investor countries, development banks, industry associations, researchers, and foundations. What they should all have in common is the goal not of generating profit from the CDM, but of developing CDM processes further and of contributing to sustainable development in countries that have so far been under-represented in CDM activities.

Conclusion

Standardised baselines harbour great potential to tighten up the CDM project cycle and to make the mechanism more accessible to under-represented countries. It is expected that SBLs will be more efficient, more equitable and more environmentally sound than the current, project-based approach. Once they have become established, SBLs could reduce the cost of project development as it will no longer be necessary to invest in the development of project-specific baselines.

However, SBL development can be extremely cost-intensive – especially when the data needed is not of the quality required, making it necessary to conduct complex studies to obtain the missing information. Although they can be developed in top-down and bottom-up approaches, neither process has actually produced any new SBLs due to restrictions on time and funds.

The current development process places a huge burden on the Designated National Authorities in host countries. Because the DNAs in Less Developed Countries (LDCs) often have to work with limited financial and technological resources it is unlikely that many SBLs will be developed as things stand.

Project developers face similar problems regarding data collation, and will no doubt find SBL development equally unattractive. This situation is compounded by the fact that approved SBL me-

The Wuppertal Institute and GFA have conducted a short study of the potential for SBLs in LDCs. The study is available on the JIKO website:

www.jiko-bmu.de/1202

thodologies are freely available and are difficult to commercialise as a result.

This means that the few methodologies already proposed are largely being financed by investors who want to speed up the CDM process, but have no desire to derive any direct capital from SBL development.

A better way of funding the process is urgently needed. A proposal has already been made whereby current surplus accrued by the CDM EB should be used to develop standardised approaches. It is unrealistic, however, to expect that the amounts that could be made available would be sufficient to foster sustainable, broad-based SBL development. While the financial support announced by the EB to fund SBL analysis by DNAs in countries with less than 10 projects solves the problem to a certain extent, it leaves the issue of up-front costs in data collation unaddressed.

One possible solution could be for the Parties to the UNFCCC and other investors to pay into a revolving fund. SBL developers could then withdraw an amount from the fund, allowing them to effectively co-finance the development of an SBL for specific project activities. Projects using this SBL would then use a portion of their profits to replenish the fund and make money available for subsequent SBL development. This would spread the risk involved in baseline development and make the idea more attractive. The newly developed baselines would benefit a broader stakeholder group.

In sum, standardised baselines have the potential to transform the CDM into a faster, more environmentally sound and more equitable mechanism that makes a greater contribution to sustainable, low-carbon development in less developed countries. But without up-front, third-party financing, this is not likely to happen.

CHA, FMe

Further information:

Studies on standardised approaches in three sectors:
<http://www.perspectives.cc/index.php?id=598#c1417>

Study on standardised baselines in the transport sector:
http://www.wupperinst.org/projekte/proj/index.html?projekt_id=361

EB SBL proposals submitted to the CDM Executive Board:
http://cdm.unfccc.int/methodologies/standard_base/index.html

Glossary / Abbreviations

All CDM/JI-specific terms and abbreviations are explained in detail in a glossary on the JIKO website at www.jiko-bmu.de/459

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Edited by:

Wuppertal Institute for Climate, Environment and Energy,
Döppersberg 19
42103 Wuppertal

Responsible for the contents:

Christof Arens, Energy-, Transport and Climate Policy Research Group,
Wuppertal Institute for Climate, Environment and Energy
Tel. +49 202-2492-170

Editorial Staff :

Christof Arens (CHA)
Thomas Forth (TF)
Wolfgang Sterk (WSt)
Timon Wehnert (TWe)
Florian Mersmann (FMe)

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