



World Business Council for  
Sustainable Development

# **Commercial investment under the CDM**

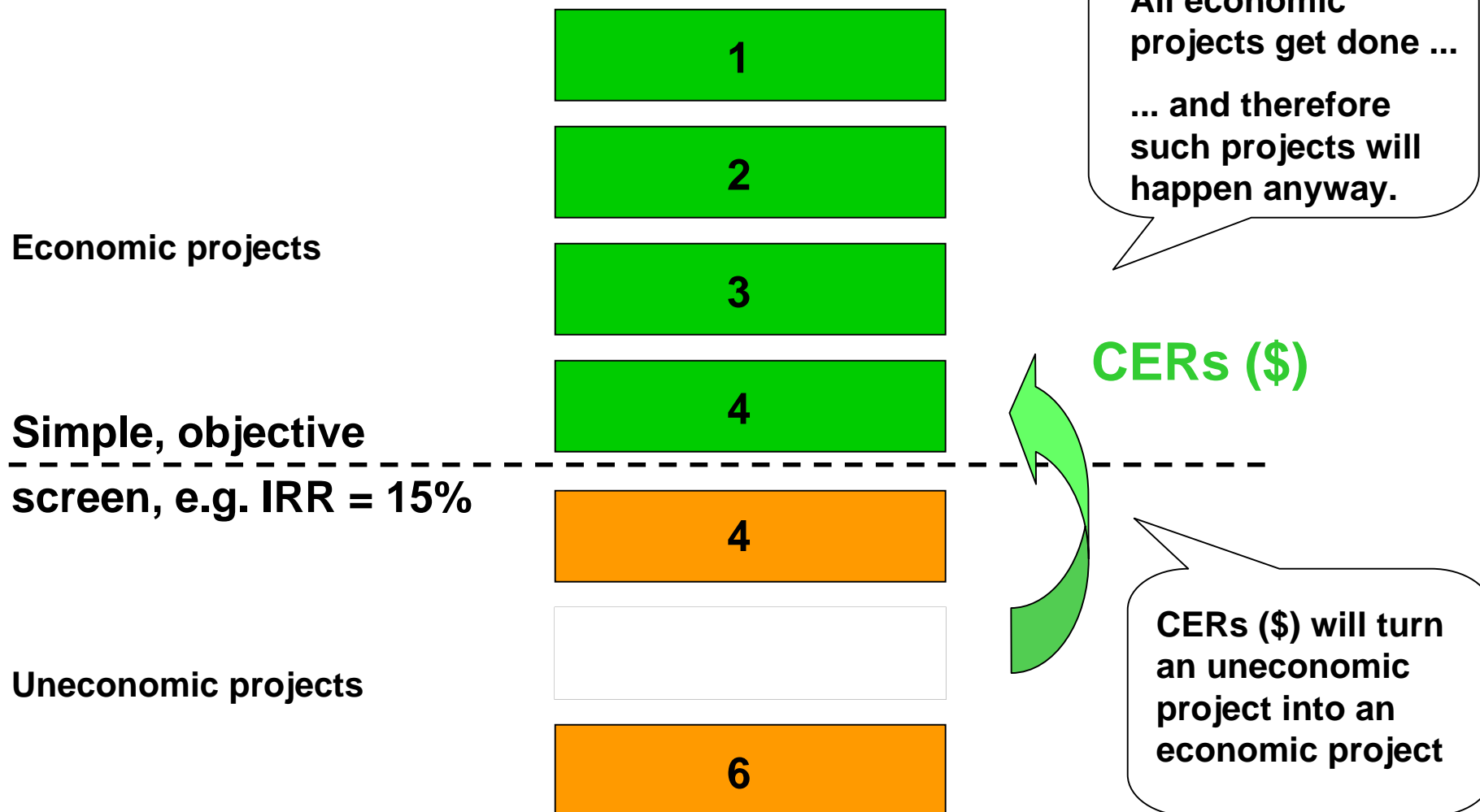
## **Implications for baseline design**

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# Beware false assumptions !



# Drivers of commercial investment

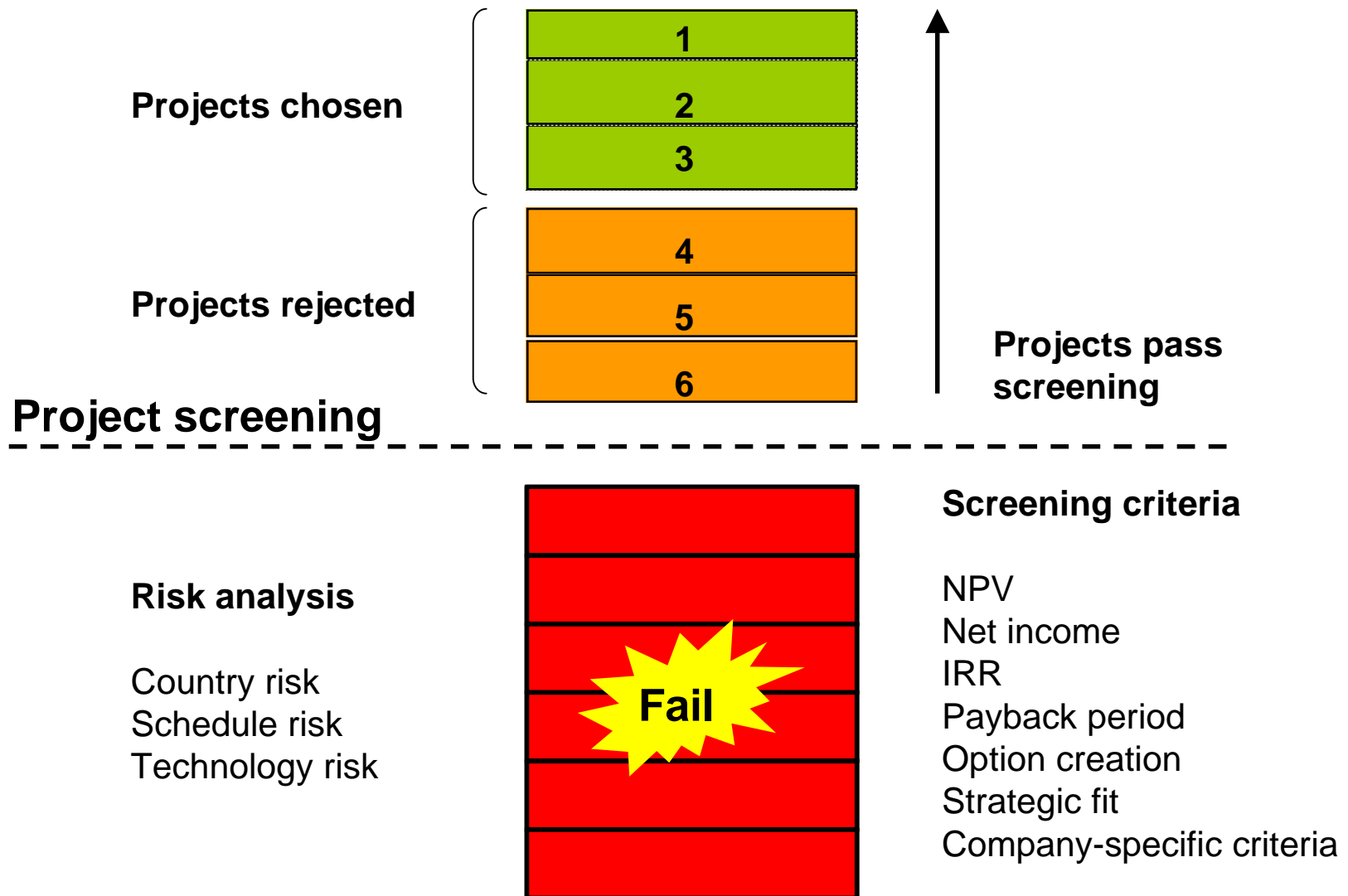
- Financial profile: NPV, IRR, payback period, ...
- Strategic fit
- Option creation

Every commercial investment is a competitive act

The limitation in this competitive world is resources, not projects

At issue is how to distribute limited resources to best effect





# Impact of CDM

- CDM will alter decisions at the margins of investment
- CDM will help to distinguish between competing commercial options
- CDM can stimulate 'projects within projects' that are pursued for competitive reasons



**Projects realized**

1

2

4

3

**Projects denied  
capital / resources**

5

6

**Project screening**

**CDM benefits:  
e.g. CERs,  
reputation**

**Projects that fail  
screening**



## But .... barriers to CDM investments

- Additional costs for baseline development, verification, ...
- Schedule risk: risk that CDM procedures delay project implementation and complicate project design

**Keep the procedures really simple !!**



## **Value of CERs (\$) = (Price – Cost)**

Price ~ market driven

Cost ~ project driven



## **During early stages ....**

CER prices ~ relatively low (marginal cost curves)

CER costs ~ relatively high (learning curve)





# CERs – a valued commodity ?

CERs need integrity to have financial value

## How ?

- Credibility and transparency around additionality and baselines
- Ownership and fungibility of CERs



# Additionality

- It's a hypothetical question
- Objective and transparent baselines will enhance the integrity of CERs
- Grounded in objective performance criteria
- Standardized baselines offer best solution
  - OECD average grams CO<sub>2</sub> per kWh
  - Mexico national average grams CO<sub>2</sub> per kWh



# Additionality depends ...

- upon a country's specific economic, social, technological trends
- upon the specific characteristics of the project / company

Standardized national / regional baselines might give a more accurate picture but are more expensive to develop.

We have to accept a degree of uncertainty.



## Some final thoughts ....

- Fixed, (shorter) baselines rather than dynamic baseline revisions
- Certified CERs must be risk-free
- Host countries must define clear rules for sustainable performance criteria at the outset
- Do not include downstream and upstream in project boundaries - focus on direct emissions
  - some exceptions (cement)



**There are no right answers, just  
intelligent choices.**

Thank you !



# CDM / JI Knowledge Management system:

[www.cdm-connect.org](http://www.cdm-connect.org)

