



The CDM

Credible rules for quality projects

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Basic Principles

- Additionality is impossible to measure
 - the CDM by its very nature is a subjective process in that it requires the definition of reality before it happens
- Rules should therefore be governed by clear principles, and directed at practical and explicit goals
 - Article 12 gives us some guidance (sustainability, long terms emissions reductions). More would be useful



Basic principles (2)

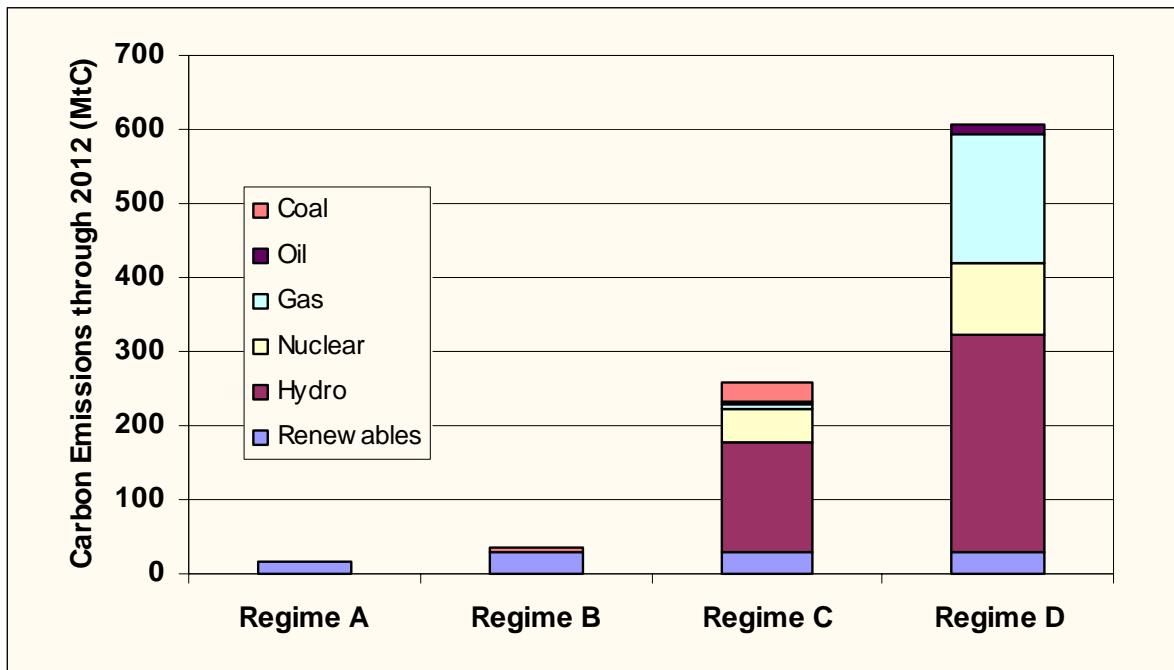
- Package Deal
 - Baseline rules are affected by rules in other areas e.g. additionality, eligibility, transparency, participation
- Management of risks and opportunities
 - Must be properly identified and used to drive principles and rules



Risks (1): Free riders

- “Anyway tonnes” from power sector could amount to as much as 25% Annex 1 target.

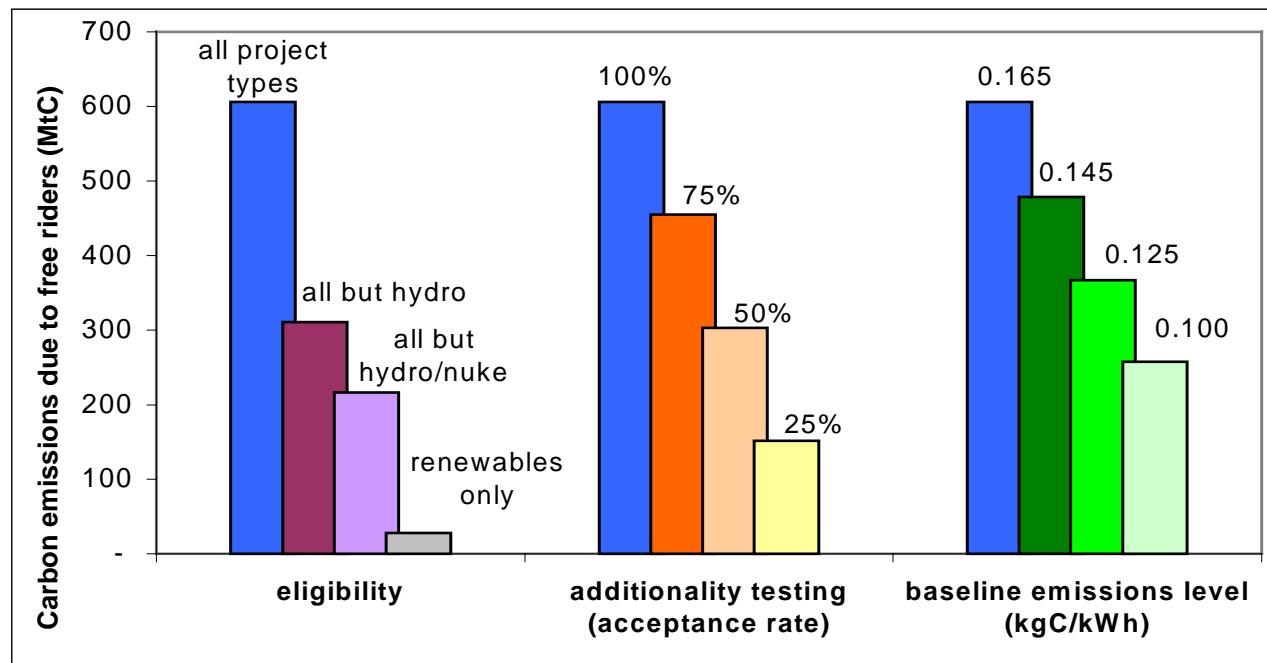
Distribution of Free-Rider Credits Among Projects According to Fuel Type (at US\$10/tC) (Bernow et al 2000)



Managing Free Riders

- Tools include rules for eligibility, additionality and baselines

Sensitivity of free-rider estimates
(Regime D) to key
design
characteristics





Solutions

- Tight eligibility (blunt but cheap)
- Discrete additionality screen

Baseline implications

- Project by project according to standardised guidelines (?)
- Base on new build
- Time limited
- Avoid fuel specific
- Dynamic (fixed multiplier or review)
- Discounting if necessary to reflect uncertainty



More risks - Sustainability

- Other environmental and social impacts.
Important for credibility of mechanism – especially in current uncertain investor climate
- Tools – eligibility (blunt but cheap), social & env impact assessment, transparency, public participation
- Less relevant for the baselines discussion but part of the package



Even more risks - Transaction costs

- Outweigh value of carbon credit, no incentives for CDM investment
- Tools – standardised & simpler procedures (especially baselines but also additionality and sustainability), priority rules development, streamlined bureaucracy
- **Not a problem for large projects**



Opportunities - Innovation and clean technology promotion

- Esp. demand side, renewables, off-grid
- **Must be prioritised** - otherwise the CDM will not be able to compensate for existing barriers.
- **Pronk fast-track**, 15MW renewables, 5MW demand side



Fast track baseline procedures could include:

- avoided emissions baselines
- services baseline accounting (e.g. lumens not kWh, reliability)
- longer crediting periods
- off-the-shelf availability
- wide geographic application
- priority for rulemakers



Back to the package

- Type 1: *Projects excluded*. E.g. Nuclear power, large dams – Free riders and sustainability risk management
- Type 2: *Mainline*. Projects included with full safeguards. E.g. Gas power
- Type 3: *Fast track*. Preferred rules. E.g. renewables, energy efficiency



Conclusions

- The global energy marketplace is far from level
- CDM rules must be tailored to Kyoto goals
- The CDM will not change the world
 - Tellus Institute - 5% of power sector investment altered.
- CDM as an issue must be used to drive support for sustainable energy in mainstream energy policy