



The Basics of Clean Development Mechanism

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for

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United Nations Framework Convention on Climate Change

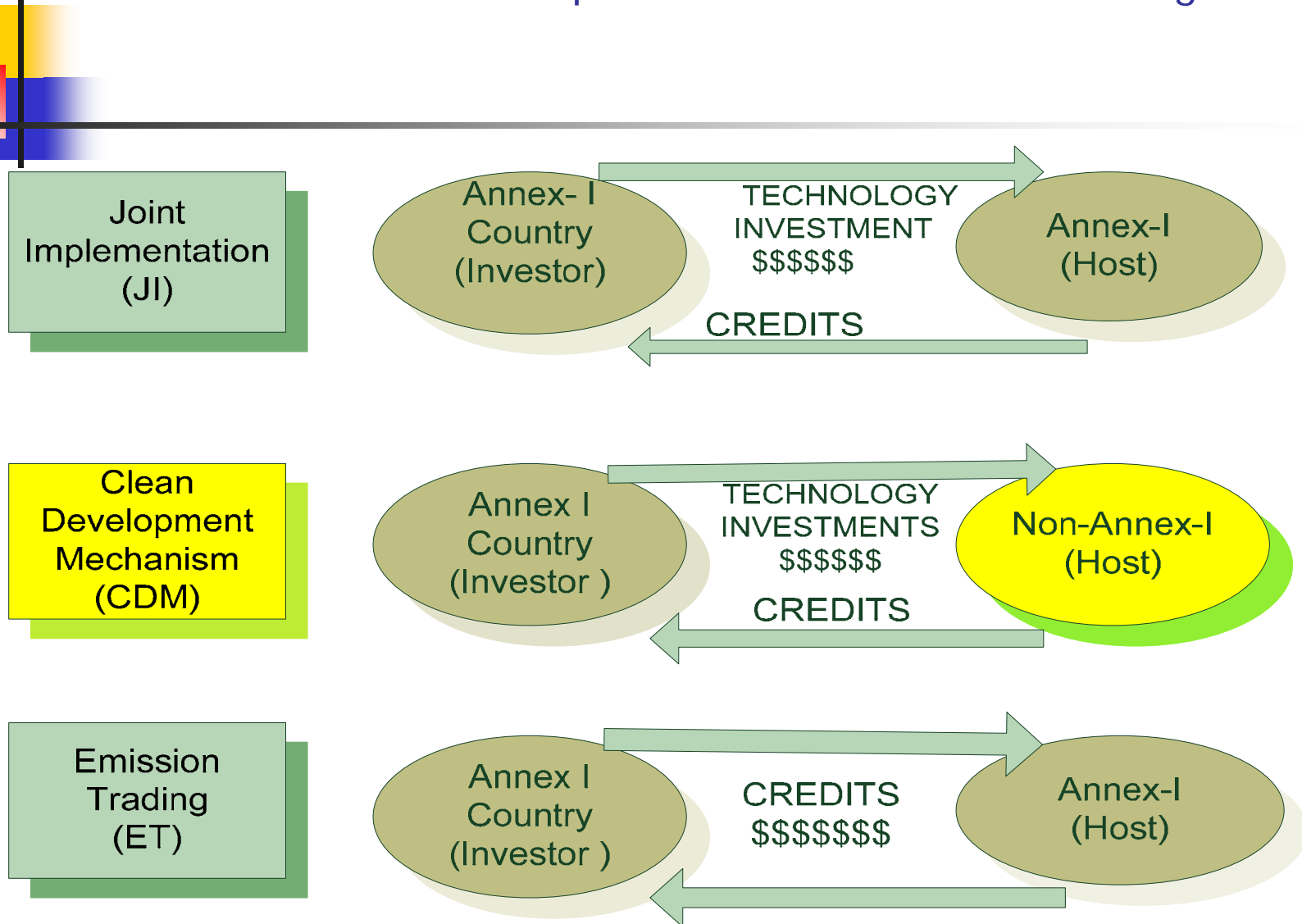
- ❖ 166 countries have signed the United Nations Framework Convention on Climate Change
- ❖ The Convention divides countries into two main groups Annex I (developed) & non-Annex I (developing)
- ❖ International efforts to reduce 6 greenhouse gases (GHGs)
 - ❖ including CO₂, CH₄, N₂O, HFCs, PFCs and SF₆
- ❖ Adopted on December 11, 1997 in Kyoto, and entered into force on February 16, 2005.

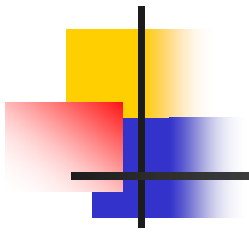
United Nations Framework Convention on Climate Change

- ❖ 38 industrialized and economies in transition countries
- ❖ agreed to reduce GHGs below individually specified levels
- ❖ (= > globally adds up to total cut of at least 5% below 1990 level during 2008-2012)

What is the CDM?

Kyoto Mechanisms to assist developed countries to reach their targets.





CDM Project

CERs

Sustainable development in developing countries

Investor

Investor can sell the CER to other investors or countries to comply with its Kyoto Protocol commitments

Investor can use the CER to comply with domestic Kyoto Protocol Regulations.

The CER can be withdrawn and no longer used or transferred

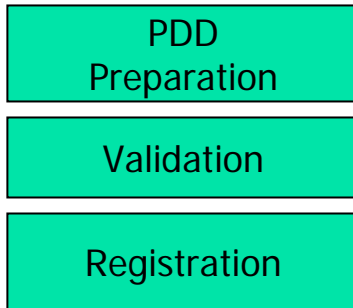
CDM Process & Cost

PDD: Project Design Document (a proposal using UN standard)

DOE: Designated Operational Entity (A third entity accredited to conduct validation and verification by UN)

1. Project Proposal-> Registration

Host Country Approval



Investor Country Approval

- Project's owner duty →
- DOE checks the PDD →
- At UN CDM Executive Board (EB) →

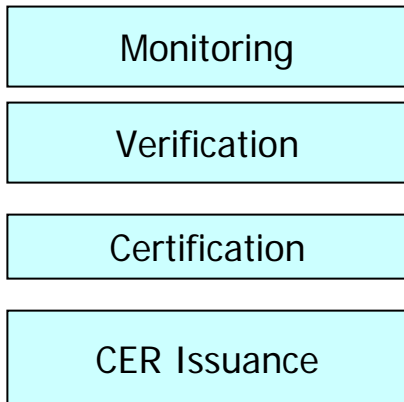
Costs

Internal manpower or outsourcing

~US\$15-20,000

Average CER/year *fixed fee
 -US\$0.1/CER: first 15,000 CER
 -US\$0.2/CER for the rest

2. Project Operation->CER Issuance



- Project's owner's duty →
- DOE checks the monitoring result →
- UN certifies the emission reduction verified by DOE →
- CERs are issued by UN CDM EB →

Monitoring Internal manpower

Initial Verification ~US\$ 10,000
 Subsequent Verification ~US\$5,000

1. Issued CER * fixed fee
2. 2% of Issued CERs



CDM Project Cycle

- Inform CDM EB & DNA of Project
- **Project Design Document- Project Owner**
- **Host Country Approval - DNA**
- **Validation- Designated Operational Entities**
- **Registration- Executive Board**
- **Financing & Implementation- Project Owner**
- **Monitoring- Project Owner**
- **Verification & Certification- Designated Operational Entities**
- **Issues of CERs – Executive Board**



Project Design Documents (PDD)

<< Contents >>

- A. General description of project activity
- B. Application of a baseline and monitoring methodology
- C. Duration of the project activity / crediting period
- D. Environmental impacts
- E. Stakeholders' comments

<< Annexes >>

- Annex 1: Contact information on participants in the project activity
- Annex 2: Information regarding public funding
- Annex 3: Baseline information
- Annex 4: Monitoring plan



Prerequisites for Participation in CDM

- Ratification of the United Nation Framework Convention on Climate Change
- Ratification of the Kyoto Protocol
- Designation of a National Authority (DNA)



Prerequisites for a project to be considered under CDM

- Contributes to sustainable development of the host country
- Results in GHG emission reductions that would not have happened otherwise
- Generates real, measurable and long-term climate change mitigation benefits
- Approved by parties (host and purchasing) involved



Critical Issues for CDM

- Availability of Methodology
- Baseline Scenario
- Additionality- why and how?



Availability of CDM Methodology

- Ideally there would be an existing methodology approved by EB applicable directly to the proposed project
- CDM EB has provision for suggesting a new methodology or modification in an existing methodology
- As far as possible, use existing methodology to avoid complexity and time overrun



Additionality

- Project has to be “additional” above and beyond as usual
- Good rule of thumb for “Common Practice Test”
 - Has technology/type of project been implemented over past 5 years in that country?
 - If yes, to what extent? What is the rate of penetration of this technology?



Additionality

- Additionality demonstrated through Barrier Analysis: barriers to implementation?
 - Investment Barriers (barriers to finance, etc.)
 - Technological (labour, infrastructure, etc.)
 - Prevailing practice (first of kind)
- Must be documented with demonstrable evidence (legislation, data, statistics, etc.)
- Investment analysis: project is economically or financially less attractive than other alternatives or no other economic benefits other than CER revenues



No additionality check

- Normally all CDM projects have to show that they are additional, example, they would not exist without CDM
- At COP 15 it was decided to establish simplified modalities for demonstrating additionality for all SIDs and LDCs



No additionality check

- At the 54th meeting of the Executive Boards (EB) it was decided the following projects are ALWAYS additional in these countries:
- Project activities up to 5MW that employs RE as their primary technology. All technologies included in Type I small scale CDM are included.
- EE projects activities that achieve energy savings of <20 GWh. All technologies included in Type II small scale CDM are included
- At COP 16, it was decided that the EB should also include Type III small scale project <20kt CO₂e in this category before COP 17



CDM baseline

- Baseline: the difference between the actual project emissions and the emission baseline constitute the volume of CERs
- Determining the Baseline:
 - Must use complete methodology
 - Purpose of Baseline methodology/additionality tool:
 - To determine the baseline scenario, based on the rationale and complete justification
 - To determine the basis for and demonstrate additionality



Benefits of CDM

- Additional revenue stream through Carbon credits
- Opportunity to achieve improved Energy efficiency
- Energy security from renewable energy
- Improved environmental quality
- Access to climate friendly technology
- Investment in priority sectors
- Reduced dependence from imported fuel
- Encourages private sector involvement in global GHG reductions
- Stimulates technology transfer and capacity building



Thank you
