

Proposals and a way forward for CDM reform

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They do not reflect the views of IGES or other researchers.

Proposal of CDM reform

- ◆ Removing additionality test for specific types of project.
 - ☞ e.g. wind power, geothermal, photovoltaic, solar thermal.
 - ☞ But crediting period must be limited, e.g. 10 years.
- ◆ Setting global default emission factor for grid-connected electricity.
 - ☞ e.g. 0.750 t-CO₂/MWh

Removing additionality test

◆ Why?

- ⇒ To promote “additional” GHG reductions as well as SD in host countries.
- ⇒ To give predictability for entities who rely on CDM income as essential revenue.

Removing additionality test

- ◆ Problems of the current CDM
 - ⇒ Uncertainty of income (= price x quantity)
 - ⇒ Price is uncertain. Quantity is also not so predictable. There is a risk of rejection.
 - ⇒ Normally, the CDM doesn't cover investment cost. Moreover, it raises upfront cost.
- ◆ Project owners can not rely on CDM income.
 - ⇒ They must expect CDM income as “additional.”
 - ⇒ They must be conservative in terms of revenue, in order to operate facilities.

Removing additionality test

- ◆ The CDM is a market mechanism, and there is always uncertainty in price.
- ◆ The CDM will reward the results, and not give money before emissions are reduced.
- ◆ Predictability is needed to incentivize entities to achieve something ambitious. (=additional emission reductions)
 - ⇒ At least the quantity linked to the results must be ensured.
- ◆ Automatic registration will give predictability.

Removing additionality test

- ◆ It is clear that projects such as wind power, geothermal, photovoltaic and solar thermal are not profitable without additional incentives.
- ◆ Those projects basically do not emit GHGs.
- ◆ The lifetime of those facilities is more than 10 years, which may be longer than a commitment period. After the period, it will contribute to net reductions.
- ◆ CERs from those projects are merely 3% of the expected total CERs up to 2012.

Removing additionality test

- ◆ Removal of additionality test for specific projects may allow some non-additional CDM projects to happen.
 - ⇒ How about current CDM projects?
- ◆ Based on the situation of the current CDM, we must think about how to promote additional emission reductions instead of adhering to the theory of additionality.
- ◆ It will reduce the cost and save time, which will contribute to additional emission reductions as well as SD in host countries.

Removing additionality test

- ◆ Article 12, para 5(c) of the KP states, “reductions in emissions that are additional to any that would occur in the absence of the certified project activity”.
 - ⇒ Does not state “project must pass additionality test”
- ◆ With respect to the tremendous work of the CDM EB and panels/WGs, this proposal is for the second commitment period for certain categories of host countries.

Setting default EF

◆ Why?

- ⇒ To give predictability.
- ⇒ To reduce transaction cost.

◆ Is it a problem?

- ⇒ Does combined margin EF reflect actual amount of emission reduced?
- ⇒ Is it logical to calculate the average of OM and BM which is affected by already built power plants?

◆ Global average is 0.750, or set conservative factor.

Thank you very much

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