



**PROJECT
DEVELOPER
FORUM**

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How to ensure transfer of experience gained by entities engaged in CDM to new flexible mechanisms

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Background – DOE role has proved crucial

- CDM has a requirement for independent services because it creates “new” allowances (CERs) used to offset emissions elsewhere; unlike JI which is (supposed to be) a zero sum transaction
- Whilst the rules around additionality, baselines, meths etc have continuously changed, DOEs have been a vital constant in the process: We can say that all registered CDM projects complied with the rules that were current at the time. If not for the DOEs, we could not say this.
- Independent verification has also proved crucial in other schemes including JI and the EU ETS

DOE role has faced some challenges

- Conflict of interest between DOE and client
 - After 10 years of implementation, no evidence of malpractice
 - Such practice is common throughout other forms of industry
- Liability
 - the concept of “making the system whole” adds real value to environmental integrity but is proving difficult to implement
 - Reaches new levels of complexity under PoA and sampling guidelines
- Accreditation burden, especially with constantly changing rules
 - Very heavy burden with checks taking place continuously
 - Adds significant transaction costs; barrier to new entrants?
 - Exacerbated by low price of carbon and uncertain demand

Is a DOE / independent inspection function required in NMM and NAMAs?

- If the new mechanisms have a market element then an independent verification function is definitely required
- Even without a market mechanism, some form of verification is required to ensure progress is genuine and that emission reductions are really taking place
- Emission Trading Schemes have a similar need for third party inspection; its hard to conceive that actions in between the CDM and ETS would not require it

Can DOEs migrate their skills and services to NMM and NAMAs?

The same challenges which DOEs face under CDM will arise, but magnified:

- Conflict of interest – pressure will grow because projects are bigger and scope for malpractice is greater
- Liability – already complex and challenging for PoA and sampled activities; challenges will increase for standardized baselines, NMM and NAMAs (however they are defined) as variable quality data and sampling activities will become more critical to final opinions
- Accreditation – how to accredit organizations for what may tend towards unique country level activities, few in number but large in size?

In conclusion – DOE skills are required

- Whether they are offered through the traditional inspection companies is not clear
- An alternative model could be an independent verification service under the UNFCCC
 - Drawing on the skills of verification companies / experts
 - Removing the issue of conflict of interest
 - With the UNFCCC managing a fund of CERs to address liabilities
 - Replacing the accreditation function with transparent assessment criteria

Conclusions cont.

- All that said, we **MUST NOT** give up on the CDM.
- Many countries will not have the capacity to develop standardized baselines, NAMAs or NMM for years to come
- Project based activities remain highly effective in deploying private sector capital, innovation and new technology
- Given strong **DEMAND** for CERs, the CDM can continue to play a very significant role in GHG mitigation **AND** host country infrastructure development whilst contributing to sustainable development
- DOE function remains



PROJECT DEVELOPER FORUM

The Project Developer Forum primary aims are to:

- improve the efficiency, legitimacy and functioning of the regulatory systems governing the development and use of emission reduction projects,
- influence policy developments and regulatory standards related to emissions trading and emission reduction projects,
- update and support independent standards and codes of conduct in order to further improve the integrity of the industry.

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