

3<sup>rd</sup> December 2018

## Experience gained and lessons learned from the CDM Side Event Report

Overseas Environmental Cooperation Center, Japan (OECC)  
Prepared by Fahd Al-Guthmy, Jun Watanabe

This is a report of a side event held at the 24th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP24) from 3<sup>rd</sup> December to 18<sup>th</sup> December 2018, in Katowice, Poland.

- Title : Experience gained and lessons learned from the CDM
- Date : 15:00 - 16:30, Monday, 3<sup>rd</sup> December 2018
- Organizer(s) : Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC)
- Venue : Room Bug
- Moderator: Margaret-Ann Splawn (Climate Markets and Investment Association - CMIA)
- Presenter(s): Margaret-Ann Splawn (Climate Markets and Investment Association - CMIA), Daniel Rossetto (Climate Mundial - CM), Sanda Greiner (Climate Focus - CF), Alexis Leroy (Allcot), Ricardo Esparta (Energia Renovavel e Credito de Carbono - EQAO)

### Abstract

This side event gave a unique opportunity to reflect on the broad range of experience gained and lessons learned over the 17 years of the CDM, including the infrastructure developed. In addition, the side-event will also present and discuss the outcomes of the “CDM achievements report.

### Session Summary

#### Opening Remarks by Arthur Rolle (CDM Executive Board Chair - CDM EB):

- The event is aimed to provide an opportunity to see lessons from CDM and to make it as credible as possible with environmental integrity at the forefront. CDM has registered more than 8000 projects and programs and over 2 billion in CDRs.

#### Keynote speech by Splawn, CMIA:

- In 2001 – Enron filed for bankruptcy. Company shares collapsed as a result. CDM isn't one of these events in 2001, yet it has done much. It started with the Kyoto protocol. Flexibility should be allowed to lower compliance costs as proposed by the USA, merging developed and developing countries. This resulted in co-benefit.
- CDM turned carbon into a commodity. It established methodologies, standardized and robust market (participants could enter and exit the market freely), liquidity, transparency in price, integrity and credibility. It also allowed voluntary markets to develop.
- CDM resulted in several accreditations/standardisations such as VERRA, Gold Standard etc. More than 2000 different projects were issued under this. It has a history of innovation and many lessons learned.

#### **Rossetto, CM: “Achievements of the CDM”**

- CDM was transacting a lot in 2008 with as many as 400 projects at any given month. 2018 CERs prices however, are almost negligible.
- Even so, Japan, under the Keidanren initiative is using CER credits.
- During COP12 in Nairobi in 2006, the buzz word was “mind the gap” (meaning to be careful for time between 1<sup>st</sup> and 2<sup>nd</sup> period of the KP)).
- The mainstream market has no new demand which is a shame.
- Achievements of CDM: Macroeconomic benefits to developing countries. CERS were brazils' top ten exports for a few years and attracted FDIs. Reduction was the cost of compliance within the EU ETS. CERs were cost relief for Japanese Kiendanren program. CDM was a safety valve allowing ETS to be effective.
- There is demand as shown by some OECD countries of about 30 euros per ton of CO<sub>2</sub>eq to do abatement abroad so CDM is necessary as a safety valve.
- Demand: uncertainties such as the future decision will continue. The shortage of abatement between 2012 – 2030 is greater than that of CDM to date. Potentially we are heading to a short market.
- Re-engagement of the private sector is necessary and international standards across the globe should be harmonized to one standard.
- Regulations are also needed because of scandals, reselling, VAT issues etc.
- Government changes can also cause issues; Changing rules all the time is not effective.
- Incentives for markets such as in Africa are needed so that they are not left behind. Negotiators, as they're working on the paris rulebook, should make CERs an accredited option for mitigation.

#### **Greiner, CF: “The power of the CDM to mobilize the mitigation potential”**

- She mentioned that the CDM executive board released a report of achievements of the CDM and it is comprehensive to show how far we have come and the power of the CDM.
- The amount of electricity generated through CDM can power several developing countries at once. Its contribution to adaptation is about USD 200M.
- CDM has inspired carbon pricing in South Africa, China, Korea and national pricing schemes.
- There have been new departments established in governments as a result of CDM.
- Ways in which CDM stimulates mitigation investments: i) Increasing ROI (IRR improvement); ii) Upfront finance offered by many carbon buyers; iii) Currency being USD or EURO as a hedge; iv) Diligent MRV of ERs and partnerships; v) Payments are results based; vi) Forming joint ventures in terms of international finance, capital, tech etc and; vii) Dedicated funds in carbon funding such as through the World Bank.
- CDM achieved prices of within \$5-\$15 range. This is consistent with the IPCC price projections needed to achieve 1.5 degrees. CDM can help in this as a safety valve. Now the question is how CDM can help in article 6 mitigation potential.

#### **Leroy, Allcot Group: “Your Carbon and Sustainability Solution”**

- CDM has had more than 8100 projects in 111 countries, unmatched amongst climate instruments to reduce GHGs. Investments total more than USD 300B and 2B tCO<sub>2</sub>eq reduced. 248 approved methodologies to date.
- CDM support through: 1) World bank prototype carbon fund of 180m usd supported early action and learning by doing; 2) EU ETS 2008-2020. 1.6B in CERs or ERUs to meet EU compliance obligations and 384 out of 672 buyers of CDM credits were within the EU; 3) Annex 1 party demand from Japan, New Zealand and Canada.
- New markets: Voluntary markets, CERs are ineligible in the EU ETS after 2020, and countries such as Japan are using this to apply their own version (JCM), CORSIA still unknown and China certified emissions reductions.
- Offsetting is allowed in developing countries like South Africa and South Korea.
- Example: Colombia: tax on fossil fuels started in 2017 and covered 30MtCO<sub>2</sub>eq. participants can pay money or through carbon credits. Since 2018, there is a restriction that now only domestic reduction standards are allowed. Interestingly, it went from 8 projects to 52 projects done after this rule in many sectors: forestry, energy etc. and formed a strong social impact.
- Challenges: project participants are not incentivized to continue to operate under CDM.

### **Esparto, EQAO: “Lessons from CDM - MRV: Good and Bad Methodologies”**

- The presenter is a project developer since 1999. Brazil submitted 15 CDM methodologies with 5 approved.
- “CDM in Brazil” book to be published soon, initiated by the Brazilian government.
- Impact of CDM: energy sector being the driving force for small hydro power plants (100) and wind projects (131) but less from biomass (21).
- Using combined margin approach (bottom-up approach) was a good methodology approved by CDM.
- Good MRV methodology: system dependent, BAU monitoring, Baseline scenario is grid electricity.
- Bad methodology: project dependent, additional procedures for monitoring, alternative project scenarios, baseline calculations for different energy sources.
- The Brazilian government is introducing a bike sharing project in Brazil but facing same complexity issues under MRV for CDM. He urged people to try to make it simple for developers.

### **Panel discussion with Q&A**

Q1. Splawn, CMIA:

Which lessons can we take forward for continuing mechanisms?

A1. Greiner, CF:

Incentivizing the private sector. International facilities are seen as a challenge and CDM made it easier. CDM is not recognized under the Paris agreement yet the Paris Agreement says to build on lessons learned, so CDM has that potential.

A1. Esparto, EQAO:

Massive capacity is available in CDM; Paris agreement should use these resources.

A1. Rossetto, CM:

Caution. Renewable energy has at least 20 year investment life. Take into account the carbon benefit over the long term. Cutting off CDM will send the wrong signal to the private sector that political issues can cause instability in CDM investments. CDM can be improved not destroyed as doing so will cause more damage.

A1. Leroy, Allcot:

If carbon credit is an asset it should be treated as such. It would be terrible to rewind 17 years of work.

Q2. Axel Michaelowa, University of Zurich.

How can we retain credibility if there is insufficiency to update system methodologies to

keep them credible?

A2. Esparto, EQAO:

Revisions can be made and keep CDM framework additional in nature.

Q3. Regarding opposition from civil society, how do you think a new mechanism or continuation will address stakeholder involvement going forward?

A3. Rossetto, CM:

When dealing with 8000 projects, problems are musts. The aim is to minimize them. The market should address materiality of these issues. We must stop focusing on the one thing that goes wrong and notice the hundreds that go right.

A3. Greiner, CF:

Project developers have difficulty with some decisions. Appeals processes have never materialized and there's room for improvement there.

---

To access the Side Event Reports, please refer to the following link:

English:

[https://www.carbon-markets.go.jp/en\\_info-2/en\\_info\\_event/y\\_2018/cop24-reports/](https://www.carbon-markets.go.jp/en_info-2/en_info_event/y_2018/cop24-reports/)