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BVEK Side Event
Sectoral CDM - loophole or way forward?
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Policy- or sectoral CDM post-2012?

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Defining sectoral CDM



- There are many different definitions of sectoral CDM, some of which are allowed under the MOP decision
 - **Bundling of projects** ✓
 - Same type
 - Different types
 - **Programmes** ✓
 - **Sectoral benchmark** which allows crediting of all projects below the benchmark **without** any further additionality check ?
 - **Policies** ≠
 - **Sectoral no-lose target and ex-post trade** –this is **no CDM!**
 - **Sectoral cap and trade** – This is **no CDM!**

Sectoral CDM is already there...



- **Bundling of projects**
 - **Same type:** Already **allowed now** by EB (3 swine waste management projects in Chile)
 - **Different types:** **small-scale** projects always possible
- **Programme**
 - **Several projects** submitted (biogas, wind) organized by **intermediaries**
- **Sectoral benchmark** which allows crediting of all projects below the benchmark without any further additionality check
 - **Elements of benchmark** exist in **electricity** baseline methodologies and consolidated methodologies for other project types
 - **Additionality now open** for new interpretations
- **Policy (LFG, HFC-23 regulation, waste mgt.)**
 - **Baseline is situation without policy** (EB 22)

Evaluating sectoral CDM



- **Bundling of projects**
 - **Sensible** from **transaction cost** point of view
- **Programme**
 - Essentially **project bundle** with intermediary that provides an **incentive**. Transaction costs likely to be **significant**
- **Sectoral benchmark**
 - **Intensity benchmark** makes sense for **several important project types** but **not for all**
 - **Abolishing additionality testing** is **not sensible** in situation **without binding cap**
- **Target / cap and trade approaches**
 - Require sizeable amount of **high-quality data**
 - **Allocation between different players** tricky (NAPs...)

Defining policy CDM



- **Crucial role of government**
- **A policy should have an incentive to participate (carrot / stick)**
- **Baseline: status quo**
- **Baseline emissions**
 - **Renewable electricity generation** caused by the policy
*weighted OM/BM (ACM 2)
 - **Energy efficiency standard:** average energy use of appliance before standard*current number of appliances*grid average emissions factor
 - **LFG/HFC/N₂O/PFC capture regulation:** emissions of all now regulated sources before regulation
 - **Fossil fuel subsidy removal:** Fossil fuel use before subsidy removal*fossil fuel emission factor

Defining policy CDM II



- **Policy emissions**
 - **Renewable electricity generation: Zero**
 - **Energy efficiency standard:** standard energy use of appliance*current number of appliances*grid average emissions factor
 - **LFG/HFC/N₂O/PFC capture regulation:** current emissions of all now regulated sources
 - **Fossil fuel subsidy removal:** Fossil fuel use after subsidy removal*fossil fuel emission factor
- **Policy must be monitored throughout crediting period**
- **Challenge: changes in economic activity levels over time**
 - **Avoid generation of CERs due to activity increase?**
 - **Possible solution:** limit credit to activity level at project start

Definition of policy CDM II



- **Additionality test**
 - Policy has **costs** compared to **status quo**
 - Costs **directly** accrue to **private sector**
 - E.g. renewable energy provision under a RPS is **more expensive** than fossil fuel
 - Mandated HFC-23 capture entails costs
 - Costs **directly** accrue to **public sector**
 - **Subsidy programme** for energy efficiency improvement
- **Should macro-economic benefits from policy implementation be taken into account in additionality assessment?**
 - **Incremental cost** calculation of GEF...

Policy CDM – Responsibilities



- **Who is project participant?**
- **Who does the monitoring?**
- **Who retains the CERs?**
 - **Government**
 - **Addressees of the policy** who bear costs
- **Probably latter would prefer pass-through of the revenues, not necessarily the CERs as such**
- **Share revenues according to cost distribution**
 - **Government bears CDM project cycle costs**



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Thank you!

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