TRANSITION FROM THE CDM TO NAMAS

Mitigation Implementation Implementation Network

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OUTLINE

- Decline of the CDM
- Finance challenges in a world with limited CDM
- Options to transition from CDM to NAMAs for developing countries: potential costs and benefits
- Example: landfill gas flaring projects
- Key Questions for discussion

DECLINE OF THE CDM?

Expected Demand *

Demand for offsets in 2013-2020

≈3 Gt

Mainly from EU (1.5 Gt)
Bits from Australia, NZ, California

* Unless expected demand from Annex I countries goes up significantly through e.g. more ambitious targets. No indication this will happen soon

Expected Supply

Supply of CERs in 2013-2020

≈7 Gt

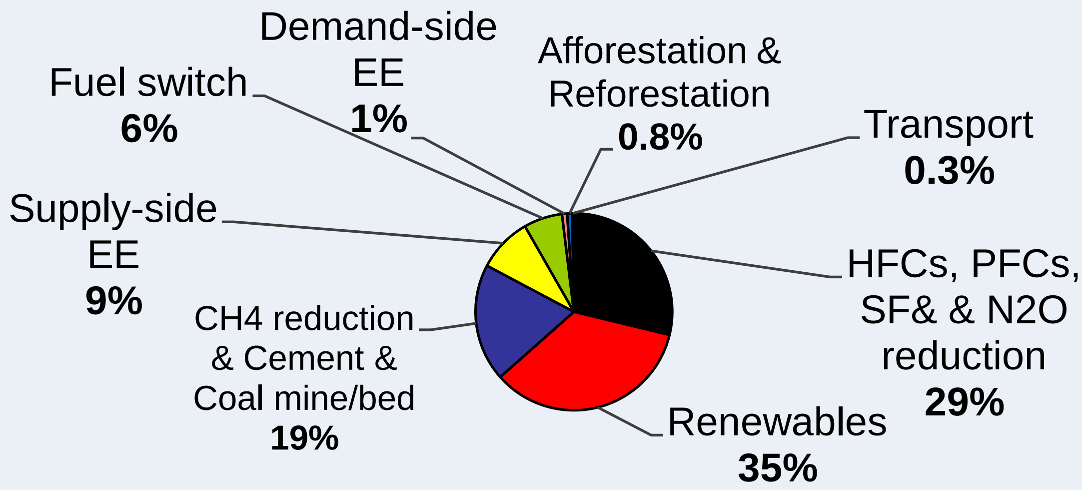
Source: UNEP Risoe

SUPPLY SIDE RESPONSE

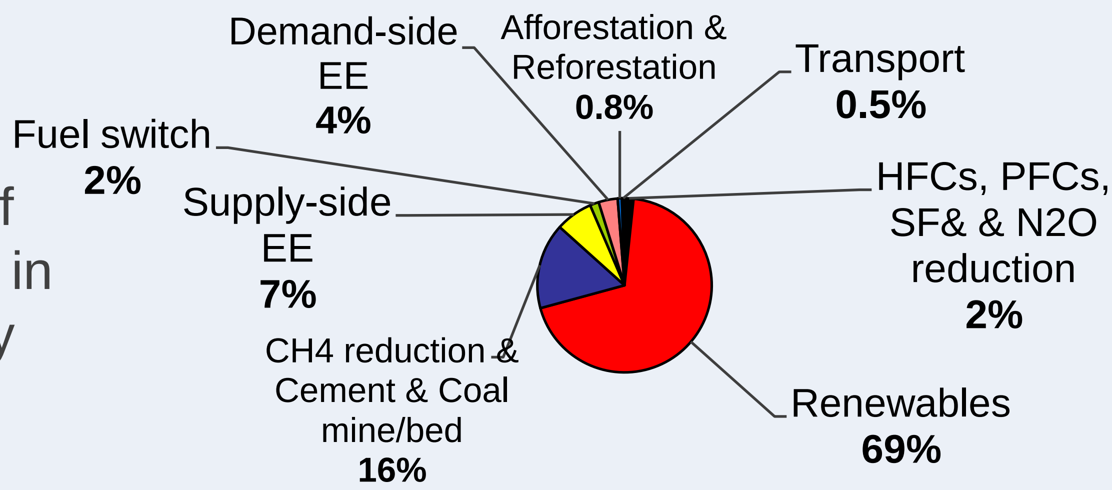
- Current price (10/26): 0.8 EUR/CER (expected to stay like this)
- Supply will balance with reduced demand. This means:
  - *Few/no new CDM projects will be developed*
  - *Many existing contracts will not be renewed in 2013, as price is below the cost of verification of reductions*

CDM OVERVIEW

Expected CERs Until 2012 (%) in each Category



Number (%) of CDM Projects in each Category



CHALLENGES FOR CDM

Largest number of CDM projects to be affected are in:

- Renewable Energy (wind, hydro, biomass)
- Methane avoidance projects
- Landfill gas projects

Key question: Which of these have no reason, beyond CDM revenues, to continue?

A: Landfill gas flaring and those marginal projects in other sectors where CDM revenues are major portion of the ROI

BAD AND GOOD NEWS

- **Bad News**:
  - 1) Failure to renew CDM project contracts is undermining confidence in carbon markets and in climate as a source of finance.
  - 2) If not quickly replaced by other finance, loss of CDM revenues will make selling new concepts like supported NAMAs or New market Mechanisms (NMMs) more difficult

- **Good News**:
  - 1) if projects are economically viable and are not renewed, they can continue without CDM revenues and can contribute to 2020 emission pledges by countries. Effect is to have low hanging fruit stay at home in developing country.
  - 2) Once built, many RE projects will continue to supply energy as operating costs are low

POSSIBLE RESPONSES?

Government could:

- assess situation with project developers/owners to determine extent of problem
- Define clear and measurable national plans for selected sectors
- Integrate (CDM) projects and supporting actions into a larger national/regional policy framework
  - Introduce new financing mechanisms, with/without support
  - Develop needed regulatory modifications
  - Implement incentive schemes
  - Engage both CDM developers and CDM non-participants in sector to assess new sector-wide strategies
- Let market handle the problem

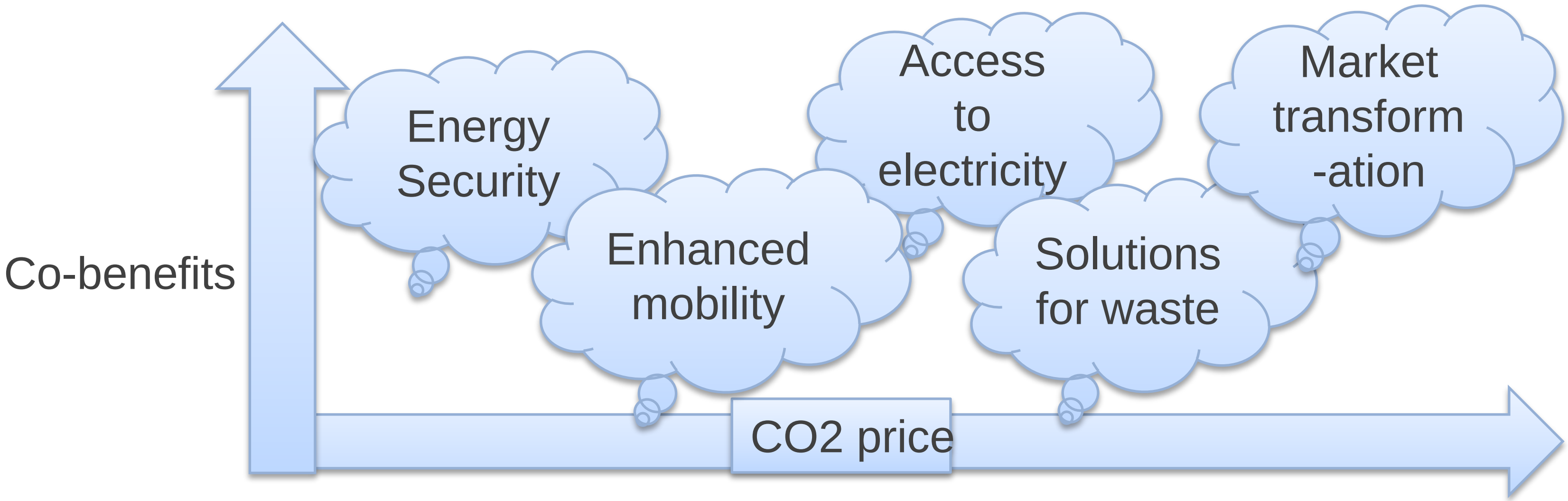
WHAT NEEDS TO BE ASSESSED?

- Which types of CDM projects can continue without CDM revenues? How extensive is the potential market reduction?
- Have certain projects or project types become self-sustaining (e.g. RE)?
- Are there alternate policy/financing options available? Can the voluntary market take up some of the slack?
- Are there additional non-CDM benefits that could be gained if projects are restructured?

POSSIBLE CO-BENEFITS

CDM world = one dimensional, guided by CO2 price mainly

Multi-dimensional NAMA approach includes other financial/economic/social/health benefits



NEW FINANCING MECHANISMS TO FILL CDM FINANCING GAP

Host country assessment needs to consider:

- Need for public/private finance support (e.g. supported NAMAs)
- Need for new/enhanced financing mechanisms (assists borrowers, project developers)
- Introduction of domestic carbon price (tax, emissions trading, …)
- Size of aggregate investment needed to make a difference
- Are there particular sectors where incorporation into NAMAs is highest priority?

NEW FINANCING MECHANISMS TO FILL CDM FINANCING GAP?

- Supported NAMAs can advance policies that have a much larger potential impact in transforming a sector's GHG profile than individual CDM projects can.

- NAMAs that offer new (financing) mechanisms for renewables can include:
  - Price stabilization fund to guarantee against price volatility which has discourage RE investment in Chile
  - Feed in tariffs like Germany's
  - Revised transmission interconnection pricing policies to help RE power, CHP and LFGE power to get to market
  - Special Purpose entities to bundle small renewables

Support for such mechanisms could insure the future viability of RE projects that face threats from the declining CDM market

EXAMPLE: THE CASE OF LANDFILL GAS FLARING PROJECTS

- Gas flaring offers no economic benefit to the developer/landfill operator beyond CERs
- Colombia Waste NAMA process has shown that gas flaring is often not the optimal environmental solution for a landfill – construction of an MBT facility coupled with an RDF user such as a neighboring cement kiln can provide far better landfill environmental outcomes. Coupling landfill gas to energy option with MBT could also be interesting, once flaring is out. (more attractive in high electricity cost market)
- Existence of CDM gas flaring contracts at largest landfills often bars such solutions, as reducing waste flow to a landfill violates the minimum delivery requirements of the CDM flaring contract

GAS FLARING (2)

- But once the CDM contract is not renewed or revenues fall dramatically, these new, environmentally more attractive options become feasible
- Gas flaring developer can:
  - Accept non-renewal of contract and/or
  - Receive some additional compensation for allowing shift to LFGE or
  - Consider participating financially in the new MBT/RDF/LFGE options – key is whether the deal is better financially than contract termination
- A supported NAMA could include concessionary finance that would be more attractive– host country, developers, and potential donors need to examine the underlying economics of such options

POSSIBLE NEXT STEPS W/ GAS FLARING

- Canada, CCAP and the IFC have begun a preliminary discussion of such options for Colombia – could have even more attractive applications in Chile and the DR where electricity rates are much higher than Colombia
- Such an approach could shift the current negative CDM decline narrative to a more positive supported NAMA emphasis
- Canada has placed $285 million of concessionary finance with the IFC for NAMAs, and the IFC would like to find a positive path out of its declining CDM portfolio

QUESTIONS FOR DISCUSSION

- Would carrying out such a national assessment of the future of existing CDM projects be an appropriate approach for developing countries or raise expectations unrealistically?
- Are there other sectors like renewables where such an approach could be taken? Or should this be limited to sectors where CDM revenues were the sole reason for doing the project, e.g. flaring?
- Can developed country governments be persuaded to participate in such an approach or will they be concerned that they are setting a precedent of helping out CDM developers when the market fails?

QUESTIONS FOR DISCUSSION

- Will the greater sustainable development and health protection benefits of the new approach to separate organics and recyclables and reduce waste in landfills be a strong enough argument for developed countries to forgo the CERs that helped meet their targets?
- Or could we share the reductions – old CER levels would go to the developed country financing the NAMA, any new reductions beyond flaring levels would stay with host country?
- Can many CDM developers be attracted to investing in the underlying projects (e.g. LFGE, MBT)?
- Is this the type of transition from CDM that the EU and others seek post 2012 in any case?

THANK YOU

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