

International Offsets: Opinions and Realities

Hill Briefing
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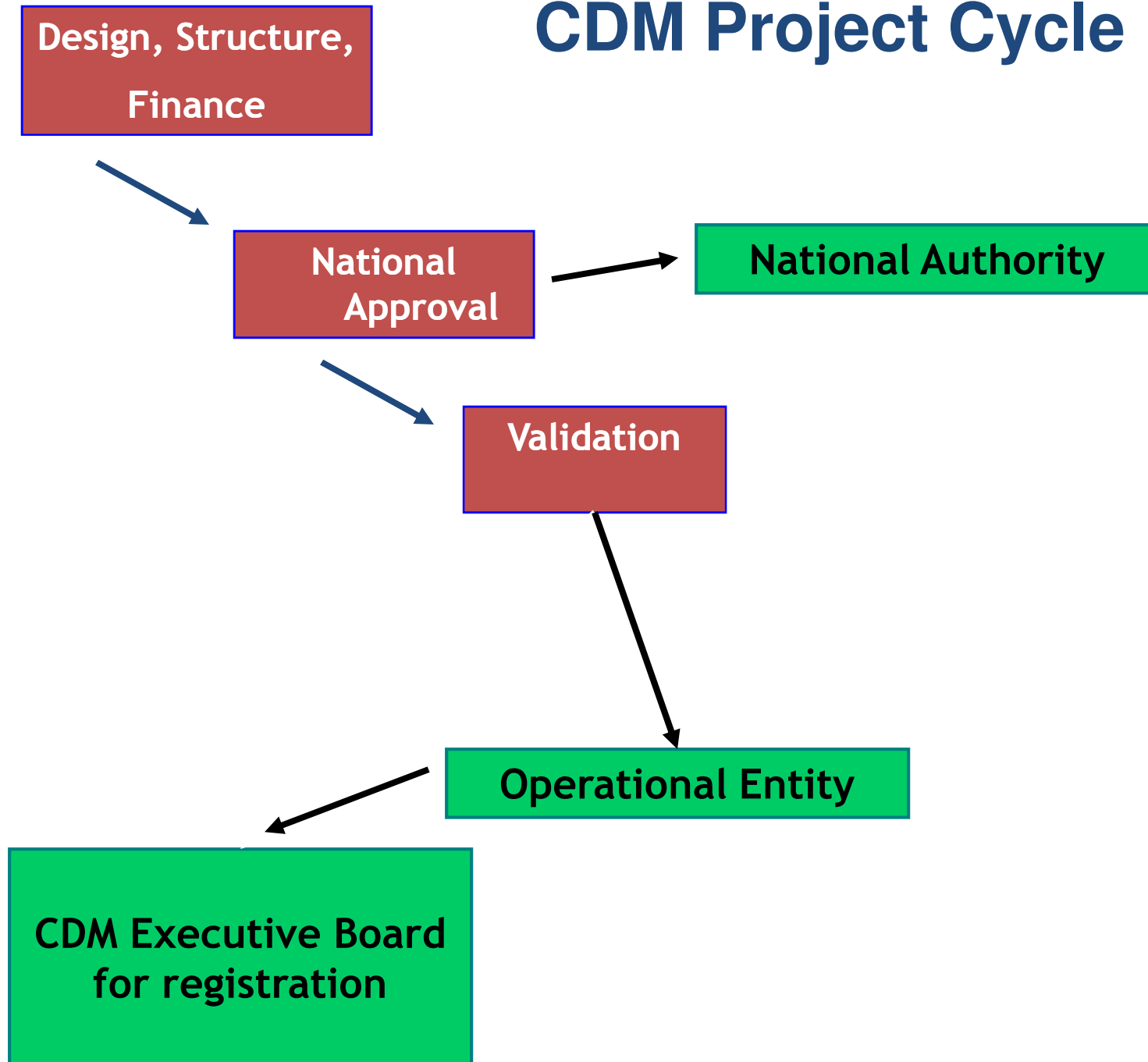
Some opinions about the main international offset mechanism

- CDM is bureaucratic
- CDM is fake: projects not additional
- CDM is too strict and has considerable delays, reducing delivery
- CDM is not cost effective
- CDM implies financial flows to foreign countries

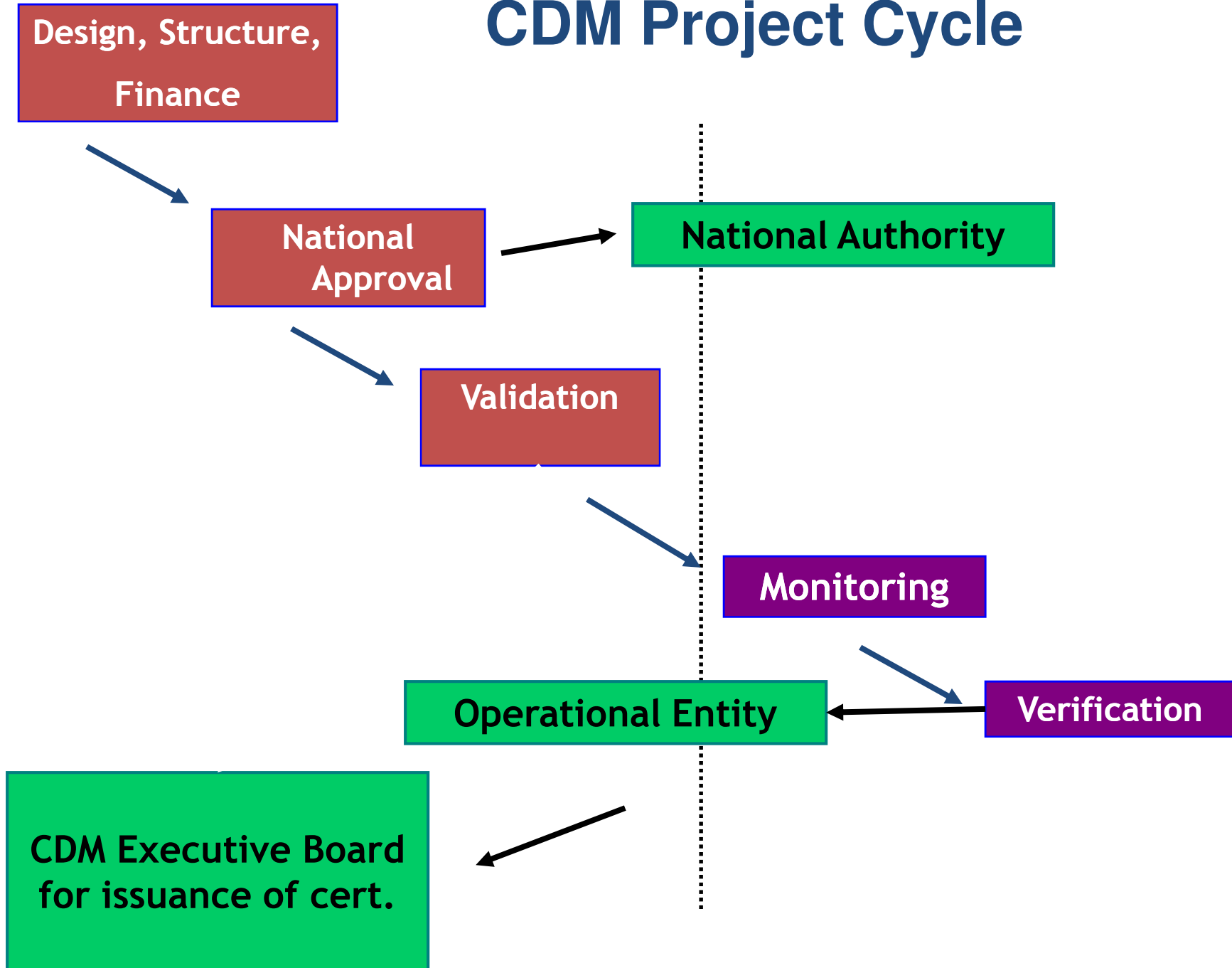
Opinions on CDM (1)

- **CDM is bureaucratic:**
 - True
 - Applies strict rules and safeguards integrity
 - Intense project evaluation process
 - Over 1500 projects have been registered, so it is doable

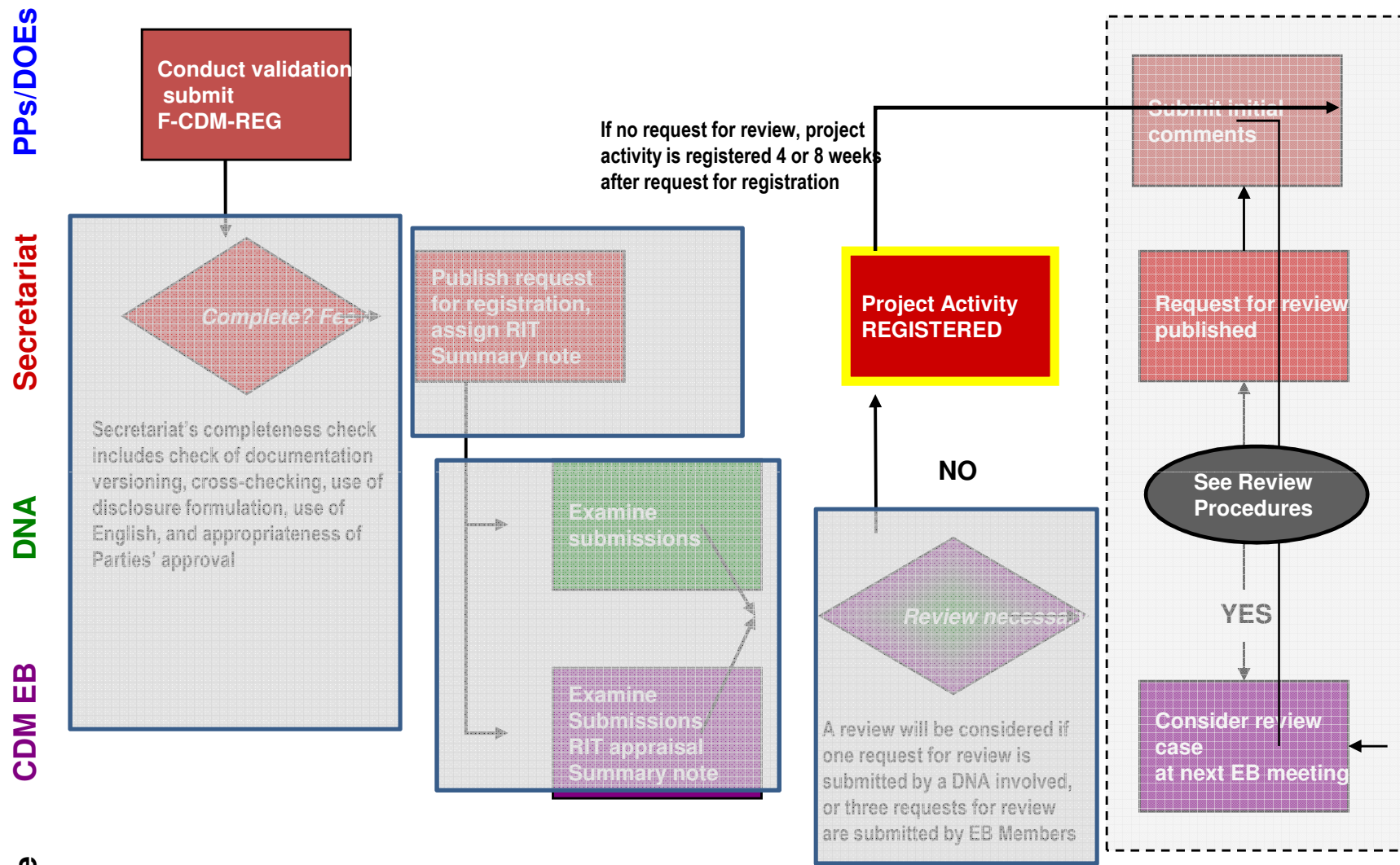
CDM Project Cycle



CDM Project Cycle



Registration Procedure



•Decision 3/CMP.1, paras 35-52

Source: UNFCCC

4 party, 4 step assessment

Reference

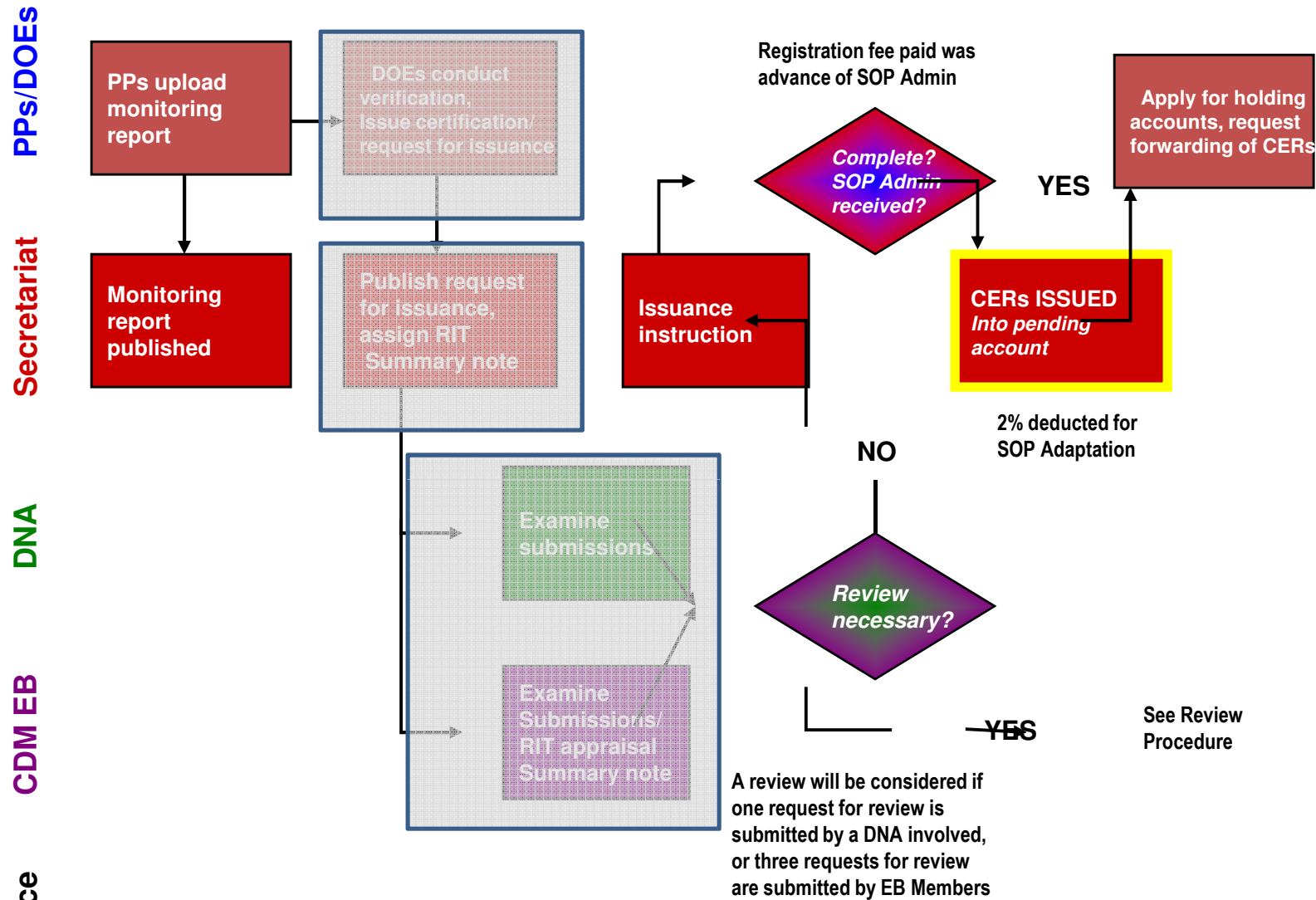
CDM EB

DNA

Secretariat

PPs/DOEs

Issuance Procedure



7 Source: UNFCCC

3 party, 3 step assessment

Review Procedure

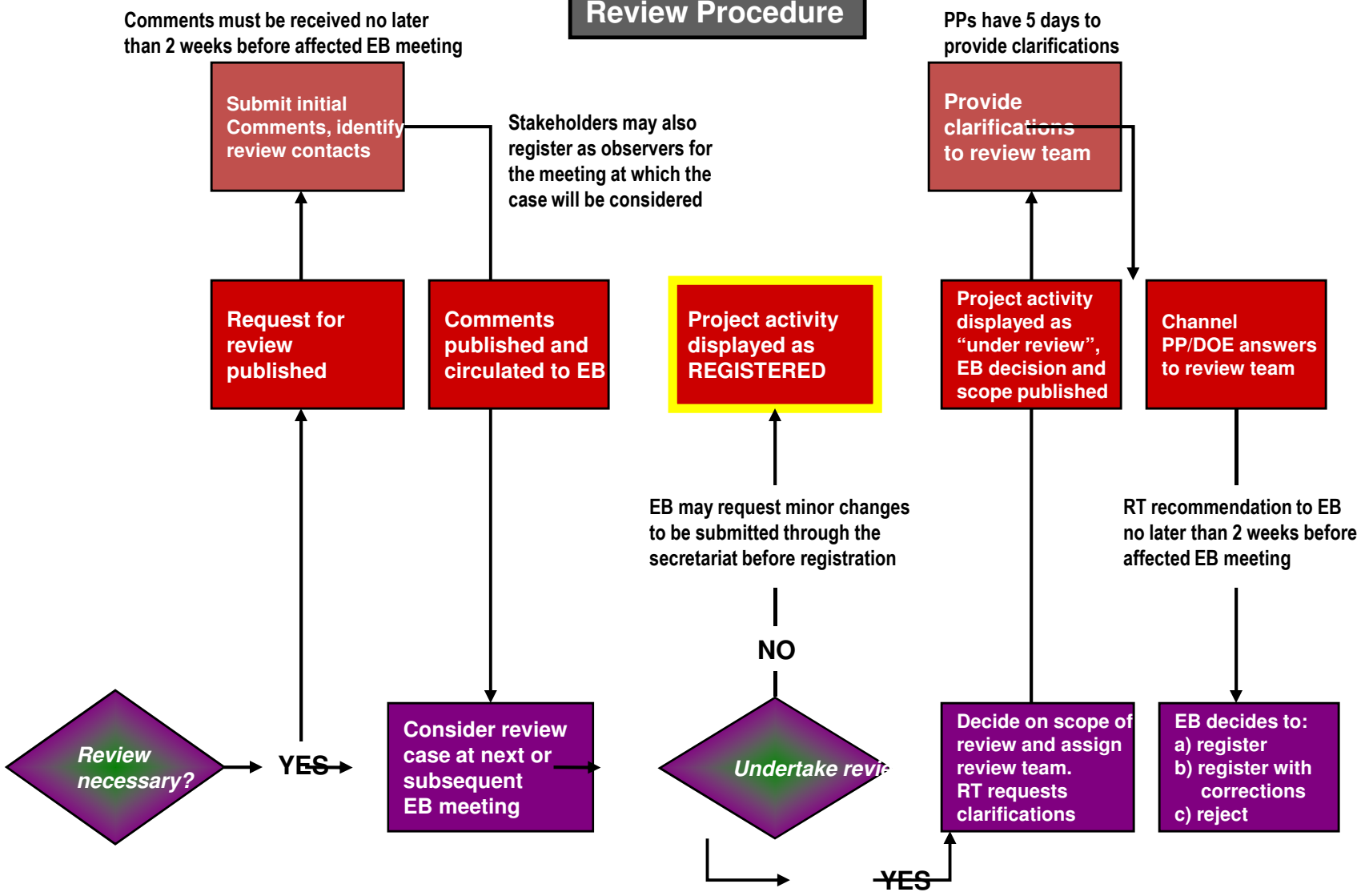
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CDM EB

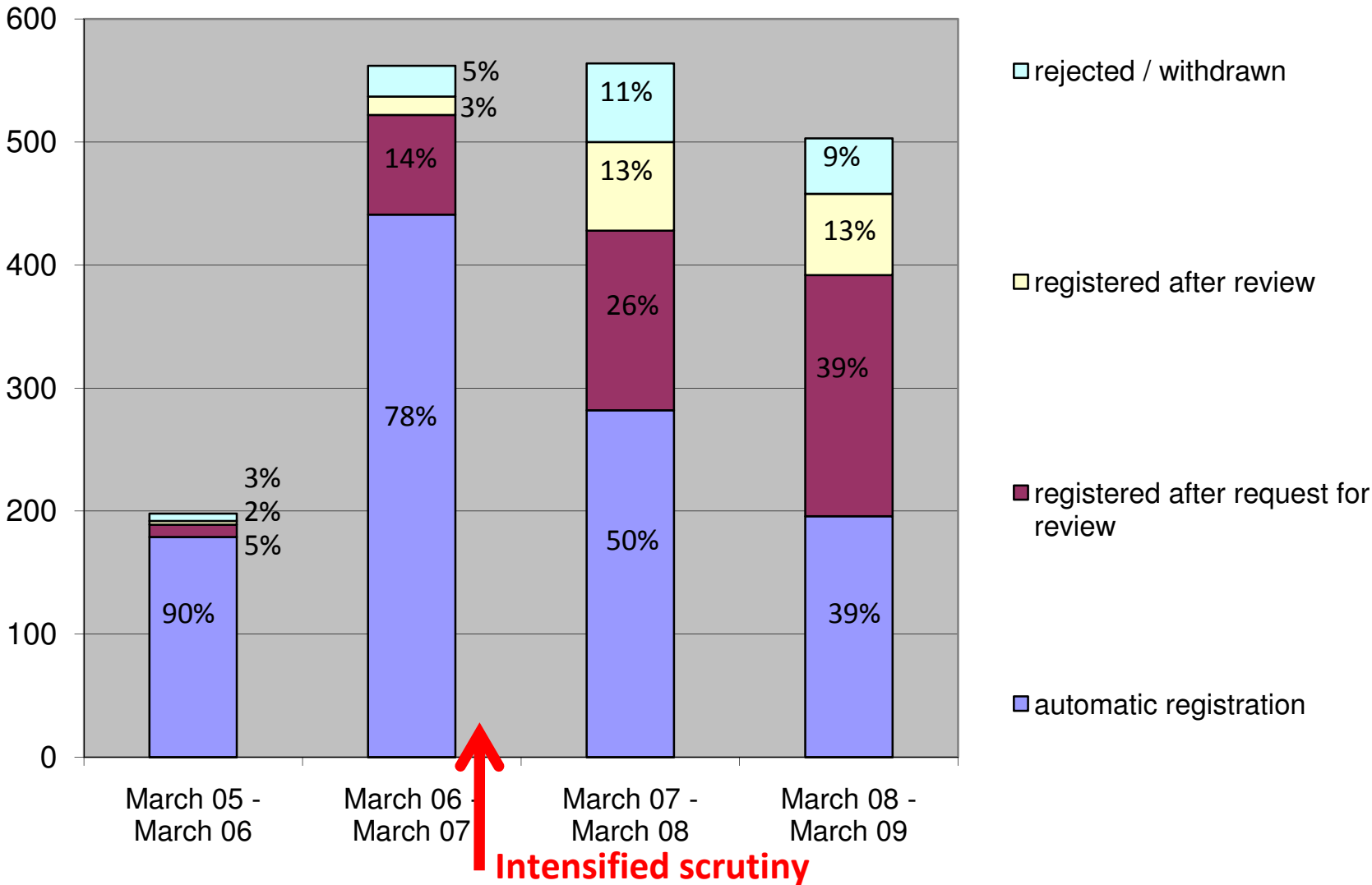
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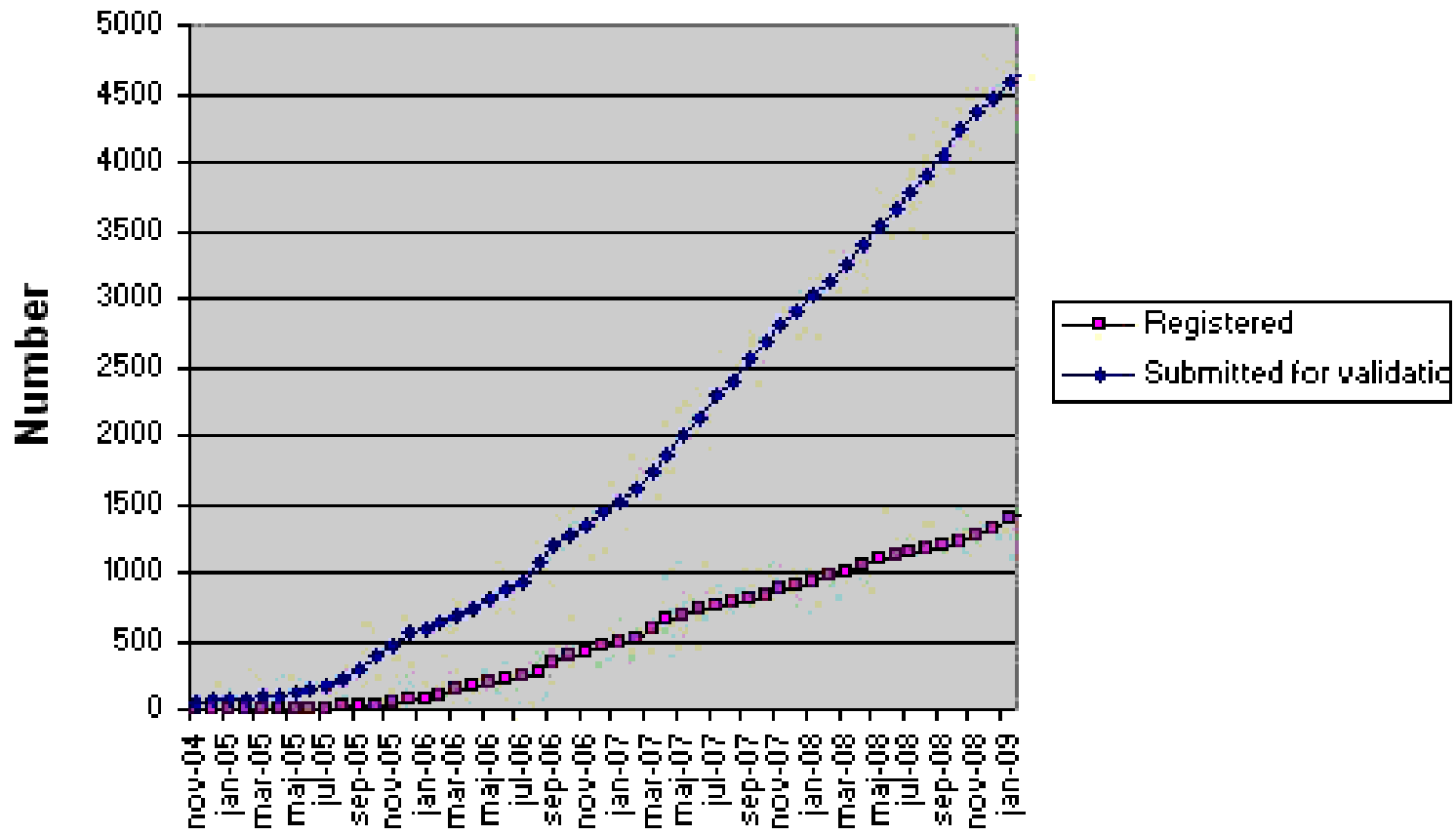
Opinions about CDM (2)

- **CDM is fake: Projects not additional**
 - Rather lax procedures in the beginning
 - Intensified scrutiny as of April 06

Facts on assessments / rejections



Projects submitted for validation and projects registered over time



Source: UNEP Risoe pipeline

Opinions about CDM (3)

- **CDM is too strict and has considerable delays, reducing delivery**
 - Stringent review ensures integrity
 - Delays
 - Procedural time allocation to each step
 - 6-12 months for methodology approval
 - UP to 1 year from project design to registration
 - Saturation of the system
 - Not built for major spikes in submissions

Opinions about CDM (4)

- CDM is not cost effective:
 - Cost of CERs (nowadays US\$ 10-12/ton CO₂) is far below most marginal costs of domestic action
- CDM implies financial flows to foreign countries:
 - Correct
 - US can apply filters, e.g.:
 - No industrial gases
 - Special provision
 - By country (Africa, LDCs, etc)
 - By asset class (renewables, agricultural carbon outside of CDM)

Realities about CDM (1)

- Young entity
 - Barely 5 years old
 - Has developed through learning-by-doing
- Has created knowledge and experience
 - 130 methodologies
 - 1,500 projects registered
 - 1.4 billion tons issued by 2012
 - National infrastructures set up in 90+ countries
 - Broad international infrastructure up and running

Realities about CDM (2)

- Has improved over time
 - Demand-based improvements
 - Procedures of evaluations for more rigour
 - Catalogue of decisions (case law)
 - Standardizing emission reductions calculation methods to reduce gaming
 - Validation and Verification Manual, capacity of certifiers
- Remaining weaknesses
 - Project-based
 - Does not cover all sectors
 - Little interaction with stakeholders
 - No recourse

Realities about CDM (3)

- Improvements under negotiation
 - Broader crediting basis (sectoral, policy-based, etc)
 - Further land-use activities
 - Standardized baselines
- Can be further improved
 - Better governance (regulator experience on EB)
 - More technical support at the Secretariat
 - Has not benefitted from US experience in emissions market
 - Can be complemented by (an)other market mechanism

Conclusions

- **CDM is not perfect**
 - Has fertilized much ground
 - Can be further improved
- **Immediate benefits**
 - Cost containment
 - Diffusion of technologies worldwide
- **Replication not necessary**
 - Any emission reduction market will face same challenges
 - Can be complemented by another system for sectors outside CDM
 - US can apply special provision for import of reductions