

Training Seminar for BioCarbon Fund Projects

CDM – LULUCF Project Cycle



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Kyoto Protocol

- 150 countries have ratified the Protocol in 2005
- Came into force February 16, 2005
- Includes 34/38 industrialized nations (= 61.6 % of emissions)
- Nations can meet their targets through internal reductions, sequestration and trading

Clean Development Mechanism

- The Clean Development Mechanism allows industrialized nations to gain emission offsets through investing in project activities in non-industrialized nations
- The purpose is both to assist in the sustainable development of non-industrialized nations and to assist industrialized nations in meeting their targets

Project requirements

- Must promote sustainable development as defined by host countries
- Emission reductions must be:
 - Real
 - Measurable
 - Additional
- Funding for CDM must not divert funds from existing government development programs

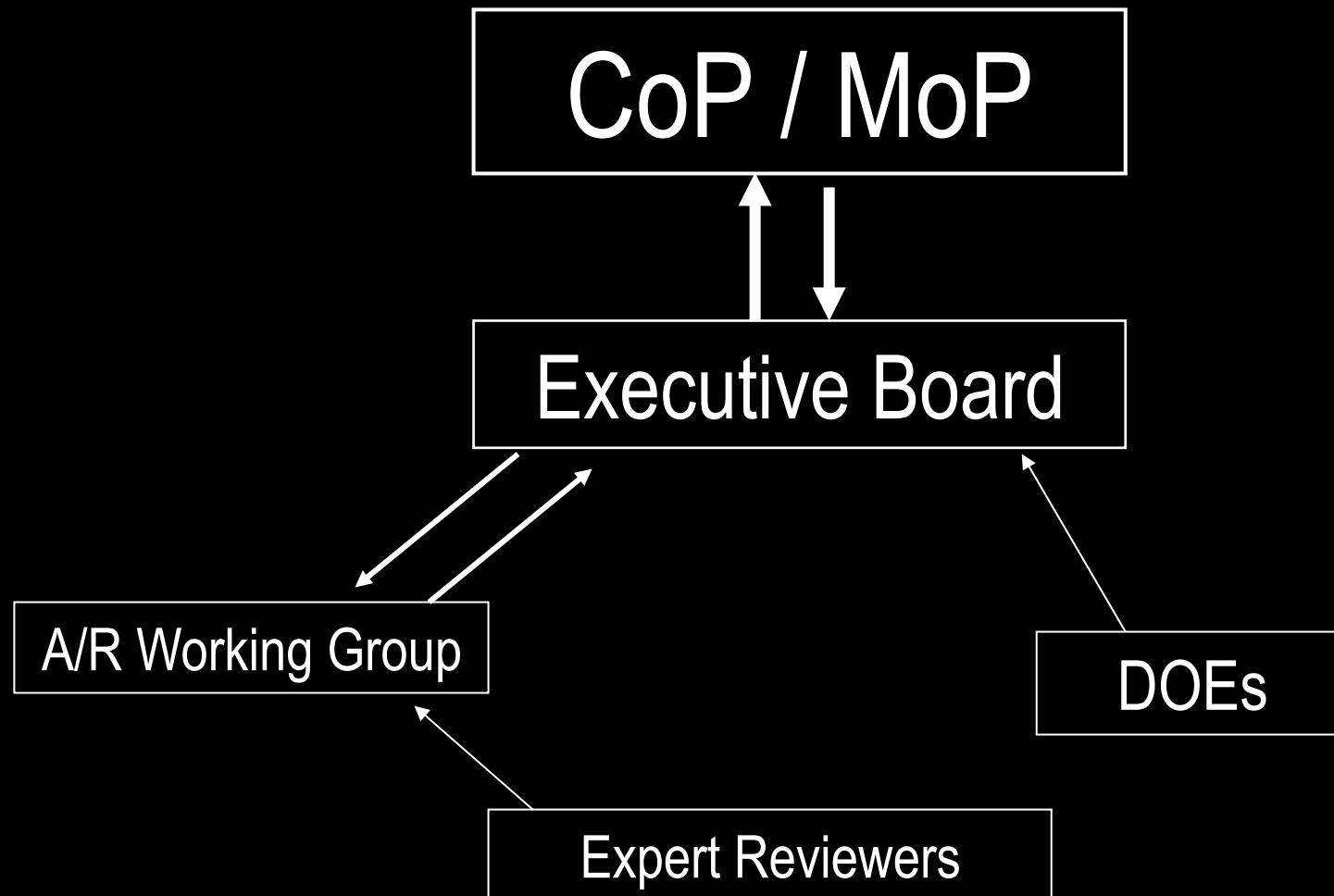
LULUCF under CDM

- Eligible activities restricted to:
 - Afforestation—direct human-induced conversion of land that has not been forested for at least 50 years
 - Reforestation—direct human-induced conversion of land that has not been forested since 31 December 1989
- Can include planting trees or seeds, or human-induced promotion of natural regeneration
 - (E.g. remove grazing animals and allow natural regeneration)

Host country eligibility requirements:

- Ratified Kyoto Protocol
- Designate a DNA
 - Designated National Authority
 - Approves CDM projects
 - Confirms project in line with country's sustainable development agenda.
 - Confirms project in accordance with all laws
 - Reviews PDD to see if complete
 - Approval process not set by CDM. Each country allowed to determine own rules

CDM Structure

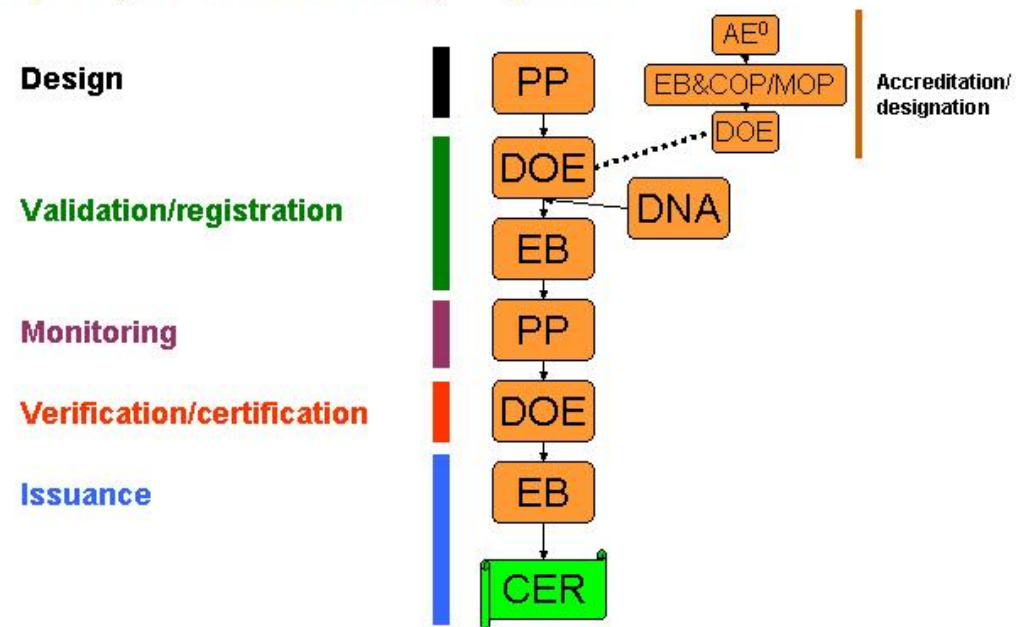


DOE/AE

- **Designated Operational Entity - DOE**
 - Domestic or international legal entity, accredited and designated by the EB
 - Two key functions:
 - Validates CDM projects prior to project implementation
 - Verifies and certifies emission reductions after project implemented
 - Must be a different DOE from the validation DOE
- **Applicant entity - AE**
 - An entity in process of being accredited as a DOE

Overall CDM Project Activity Cycle

CDM project activity cycle

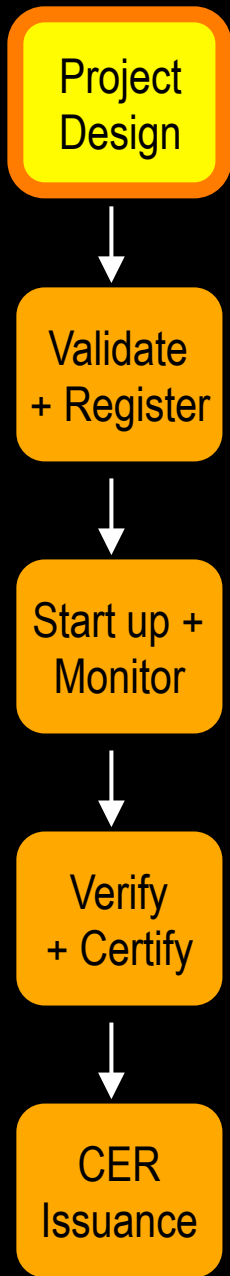


UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

Taken from: CDM UNFCCC website: <http://cdm.unfccc.int/CommonImages/ProjectCycleSlide>

CDM Requirements

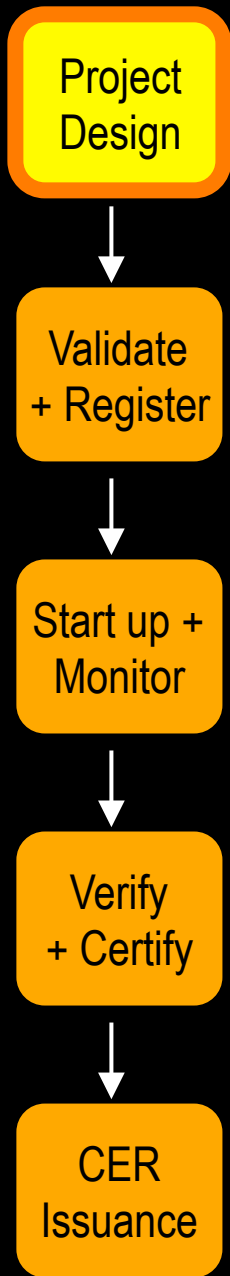
Step 1: PDD submission



■ Project Design Document

- Presents information on the essential technical and organizational aspects of project activity
- Contains information on activity, application of approved baseline and monitoring methodologies
- Submitted to DOE, which decides on validity. Must be accepted by EB
- Must demonstrate project will result in net carbon emission reductions

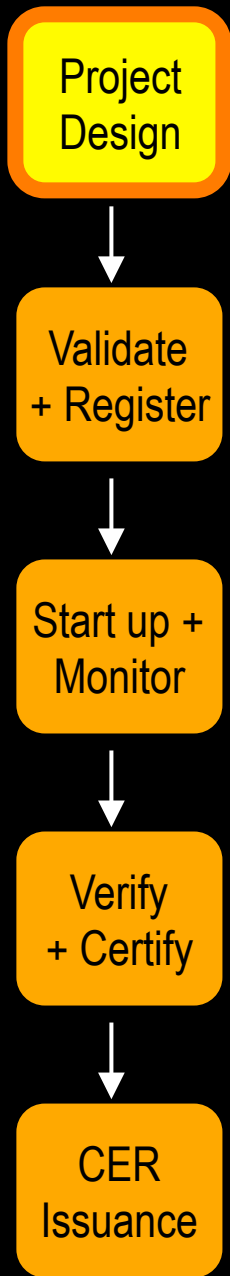
CDM Requirements



■ *Baseline Methodology*

- Application of an approach for determination of baseline scenario
- Should reflect aspects such as environmental conditions and past land uses and land-use changes
- Must be established in a transparent and conservative manner
- Submitted to DOE, which decides on validity. Must be accepted by EB

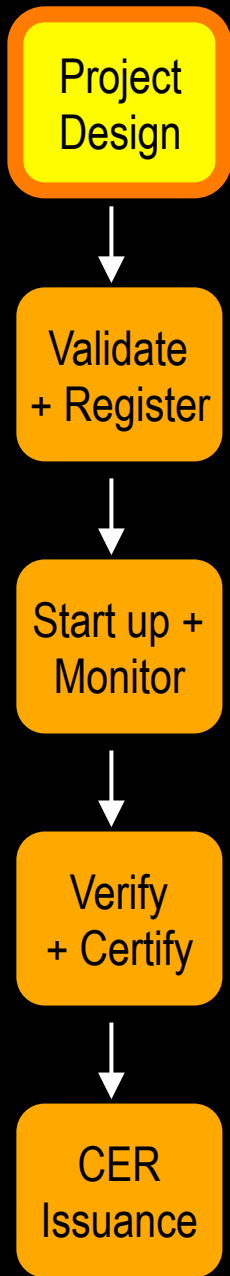
CDM Requirements



■ Monitoring Methodology

- Methods used by project participants for the collection and archiving of all relevant data necessary for the implementation of the monitoring plan
- Must be established in a transparent and conservative manner
- Submitted to DOE, which decides on validity. Must be accepted by EB

Submission of new methodology



- DOE submits NMB, NMM, and PDD to secretariat, EB, and A/R working group
- Publicly available on the UNFCCC CDM website
- Public inputs invited for 15 working days
- Experts review methodology and submit review
- A/R working group submits recommendation
- EB decides on method at next meeting

Project
Design



Validate
+ Register



Start up +
Monitor



Verify
+ Certify



CER
Issuance

Step 2: Validation and Registration

- Validation conducted by a DOE
 - Reviews PDD
 - Validates proposed CDM project and submits a validation report to EB
 - PDD
 - Written approval of project by DNA
 - Explanation of response to public comments
- Registration
 - Requested by DOE to the EB
 - Registration is final after 8 weeks unless a review is requested

Project
Design



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CER
Issuance

Step 3: Implementation and Monitoring

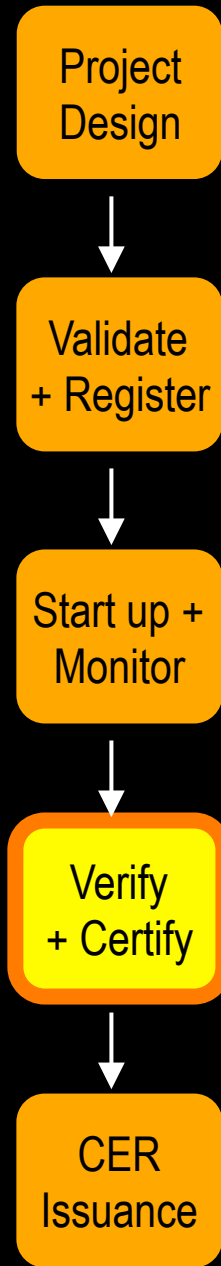
■ Project Implementation

- Follow methodology written in PDD

■ Monitoring

- Follow methodology set in the PDD
- Complete and submit a monitoring report
 - Includes estimates of carbon emission reductions
- Available to the public

Step 4: Verification and certification



■ Verification

- Independent review of emission reductions by a *DIFFERENT* DOE
- DOE submits 'verification report' to EB and is made publicly available
- Report covers a specific period

■ Certification

- Conducted by DOE
- Specific period, project achieved certain level of emission reductions
- Reductions are additional

Step 5: Issuance of credits



- **CER: Certified Emission Reduction credits**
 - Issued after verification and certification by DOE
 - Can be sold in international emissions reduction market
- **Project review**
 - After credits sold, project can review what steps wants to take, e.g.:
 - Dissolution of project
 - Renewal for another crediting period
 - Change of project participants

tCER / ICER



■ tCERs

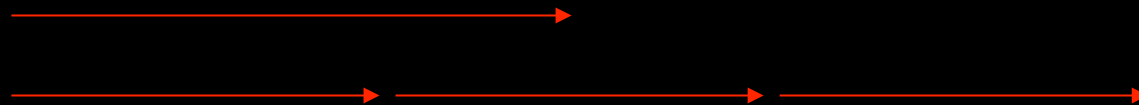
- 5 years before reissued, replaced or retired
- Price will likely be lower than that of an energy CER credit
- At the end of the crediting period all tCERs expire

■ ICERs

- Lasts for the entire length of the crediting period
- But must be replaced as soon as verification shows that the carbon stock has decreased or if there has been no verification within 5 years
- For a low risk ICER the price will likely approach that of an energy CER credit.
- At the end of the crediting period all ICERs expire

tCER / ICER

tCERs – 5 years



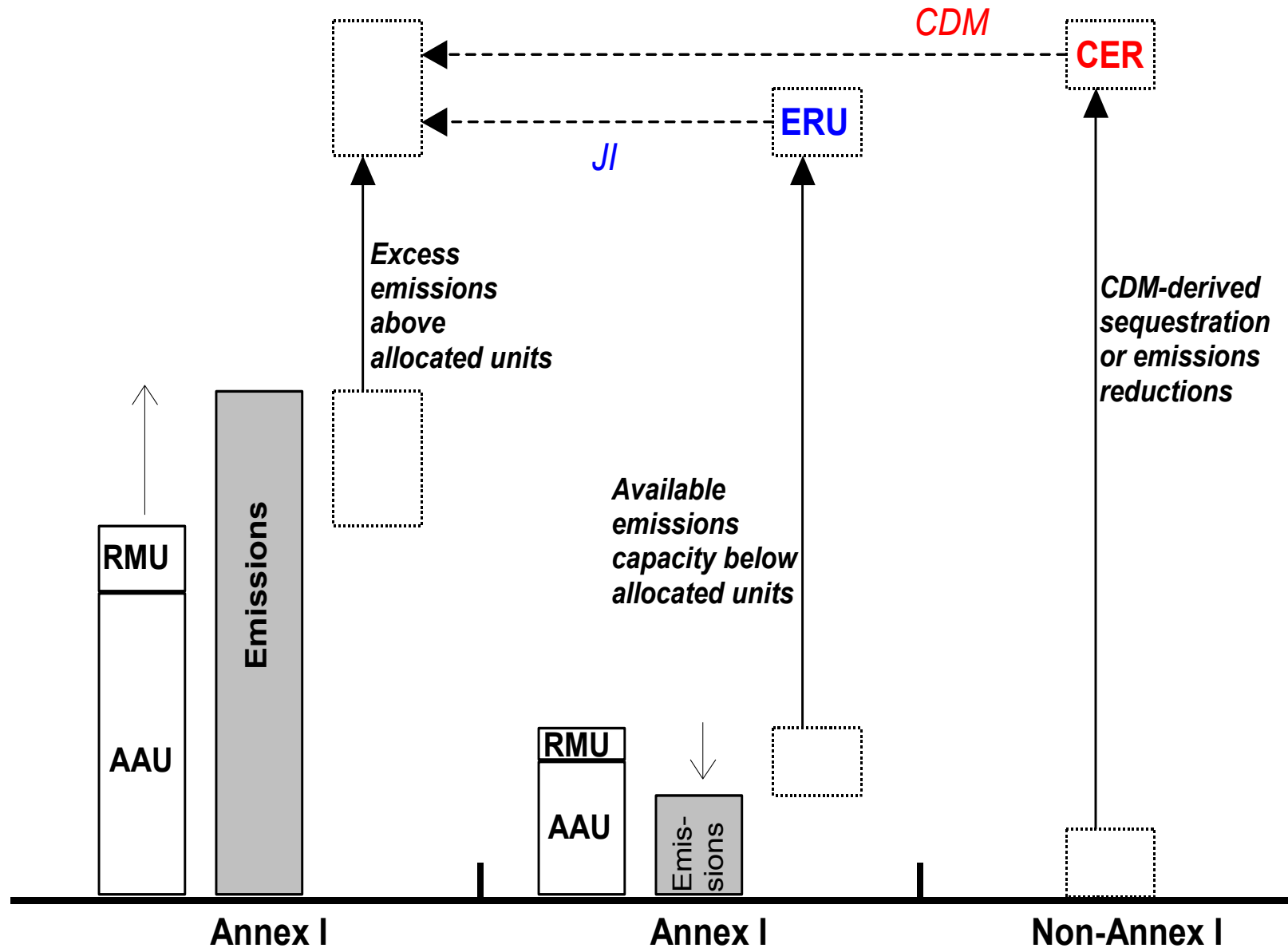
Crediting Periods

1 x 30 yrs or

Up to 3 x 20 yrs

ICERs – 30 years or 3 x 20 years

Crediting



Pros and Cons of tCERs and ICERs

- **ICERs:**

- Likely to command a higher value for the project developer,
- Lower transaction costs as only need one contract
- Purchaser will not invest in ICERs for a project in which there is significant risk;
- Market price fixed at time of contract—may go up

- **tCERs:**

- If market price likely to rise it may be advantageous for the developer to select tCERs
- If the project has significant risks the developer may be obliged to select tCERs