

The Clean Development Mechanism: Is it meeting the expectations?

The First International Conference on the CDM
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History of the CDM

- **Proposal of OPEC Member Countries:** Establish a Compensation Fund to combat adverse impacts
- **Proposal of Brazil:** Annex I Parties be subject to a financial penalty if they did not comply with their quantified commitments under the Protocol. The fine will be paid into a Clean Development Fund to support projects in developing countries



Basis for these proposals

These proposals were in accordance with Article 4.8(h)

In the implementation of the commitments in this Article, the Parties shall give full consideration to what actions are necessary under the Convention, including actions related to funding, insurance and the transfer of technology, to meet the specific needs and concerns of developing country Parties arising from the adverse effects of climate change and/or the impact of the implementation of response measures, especially on:

(h) Countries whose economies are highly dependent on income generated from the production, processing and export, and/or on consumption of fossil fuels and associated energy-intensive products



Win-Win-Win Situation

The CDM is born as a mechanism for investment

The CDM should be a “a win for the investor, a win for the country hosting the project, and a win for the environment”...

Dr. Mohammed Al-Sabban



Key Objectives of the CDM

Article 12 of the Kyoto Protocol:

1. Assist non-Annex 1 countries in achieving sustainable development
2. Contribute to the ultimate goal of the convention; i.e. to stabilize greenhouse gas concentrations in the Earth's atmosphere
3. Help Annex I countries comply with their emission reduction commitments



Benefits for Annex I and Non-Annex I Countries

- **Non-Annex I Countries:** Access to investment, employment opportunities, technology transfer, explore cleaner, more environmentally friendly ways to develop, and in general further the advancement of the three pillars of sustainable development (economic growth, social progress, environmental protection)
- **Annex I Countries:** Lower the costs of meeting their quantified emission reductions by making emissions cuts outside their own borders (help stabilize emissions level)



What is at stake for developing countries?

- Developing countries are in need of expanded energy services to meet their growth and development needs
- It is critical to reduce by half, both the proportion of people living on less than a dollar a day and the proportion of people who suffer from hunger (first Millennium Development Goal)
- Energy plays a crucial role in the fight to eradicate poverty.
- Investment, capacity building and technology transfer are necessary policy ingredients to expand the reach of affordable, improved energy services and to be better equipped to adapt to the negative impacts of climate change



Situation today

The Clean Development Mechanism is the cornerstone in bringing together the interests of the “North” and “South”

- x But with limited benefits to non-Annex I countries
 - minimal investment in capacity building
 - inconsequential transfer of technology
 - No significant contribution to change unsustainable patterns of consumption and production



What CDM needs to do:

- Make inroads into every sinew of the developing world
- Make a significant contribution to capacity building and facilitate decisions on appropriate investments
- Make inroads into changing unsustainable patterns of consumption and production



Main problems

- CDM has become entirely market driven and private investors seek to get the greatest return on investment in a very limited timeframe
- We must work together to meet this truly global challenge and all parties need to perceive that they are indeed benefiting, particularly developing countries
- Non-performance of the CDM in some parts of the world, particularly in Africa



Attempts for solving disparities

“Adaptation Fund”: **financed by** a tax levied on earnings accruing from the sale of Certified Emissions Reduction (CER) from **one group of developing countries in solidarity with another group of developing countries**

Real technology transfer and capacity building for sustainable development are simply not attractive to project financiers



Unilateral CDM

- One-third of the proposed CDM projects are now 'unilateral'
- "Unilateral CDM" is increasingly undermining the objectives of CDM: Project Design Document (PDD) is submitted without an Annex I investor
- Where is the technology transfer, capacity building and partnership in this?



CDM transaction costs

- High transaction costs constitute a disincentive to host countries
- Registering a project incurs costs between €60,000 and €120,000
- Plus annual monitoring costs (€10,000 to €15,000)
- Plus verification cost (€10,000 to €15,000)
- Adaptation levy of 2% on CERs value annually
- Fees on sale of CERs, 5-10% of value
- Uncertainty regarding cost of risk mitigation instruments on the market

Do the costs outweigh the benefits?



OPEC's point of view

OPEC sees fossil fuel use, and energy in general, in the context of sustainable development

- Renewables will not supply a major share of the world's energy mix for some time yet
- Evaluation of energy sources should be based on: reliability, affordability, economic viability, social acceptance and environmental soundness. The use of oil matches these criteria
- Technological options that allow the continued use of fossil fuels must be considered (*inter alia* - Carbon Capture and Storage)



OPEC's commitment

Active participation in key initiatives:

- ✓ IEA's Greenhouse Gas R&D Programme
- ✓ OPEC-EU Roundtable on Carbon Dioxide Capture and Storage



Where do we stand today?

- For any international agreement to succeed the interests of all stakeholders must be taken into consideration
- The European Union, in the recent Green Paper, makes a short reference to the CDM and relates it to the use of renewables
- Can the market deliver the required reductions in GHG emissions in time?



Pre-conditions for success

- All three flexibility mechanisms of the Kyoto Protocol are fundamental cornerstones to this international agreement
- The flaws of the CDM must be corrected in order to prevent the whole Protocol from becoming flawed



Looking ahead

Are we getting any closer to finding a way to meet the ultimate goal of the Convention?



Thank you





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