



Asia

Current development of International Institutions of CDM

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15th APCC Seminar – Session II – Part I

Operational Mode for CDM : Working for
environment with the Business sector

11 September 2005



Presentation Outline

- **KP Entry into force : Impacts**
- **International institutional development for
CDM**
- **Buyer perspective**
- **About Asia Carbon**



KP Entry into Force : Impacts



CDM : post KP's EiT 16th Feb 05

Major impacts

- KP ER targets becomes legally binding
- Consolidated parties' commitments
- KP Flex Mech : received further boost
- Annex I countries intensifying efforts
- Enhanced Private Sector activity
- UNFCCC : Challenging times ahead
- CDM EB : Accelerating but resource constrained



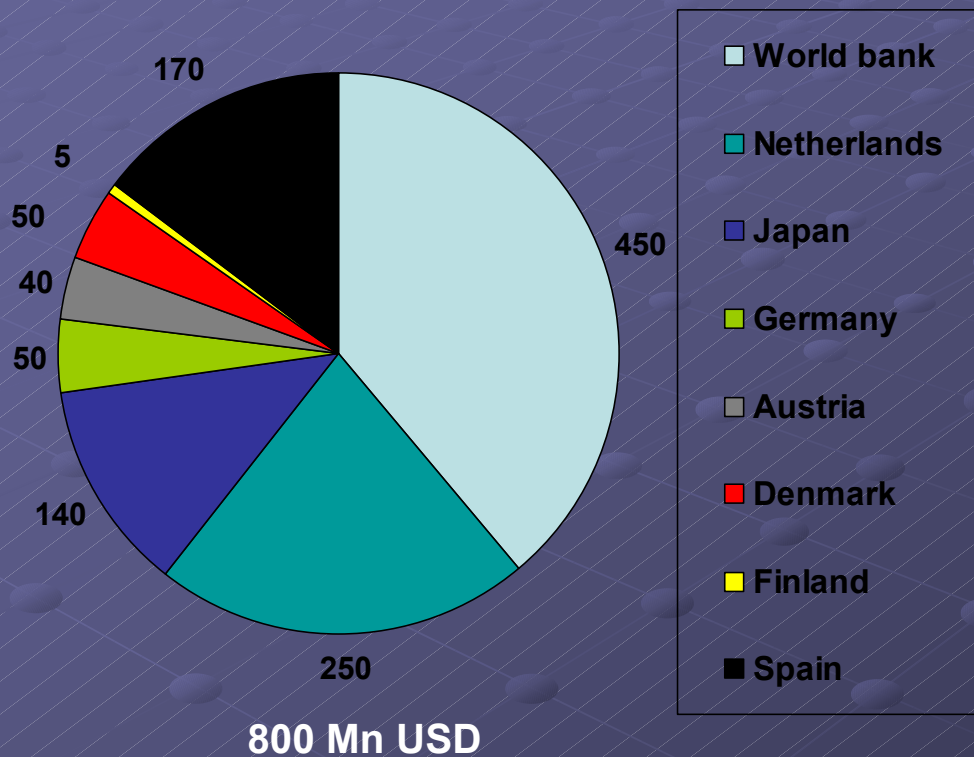
CDM : post KP's EiT 16th Feb 05

Allied impacts

- G8's New Presidency's commitment to Climate Change and Africa – Gleneagles Summit July 05
- Asia Pacific Partnership on Clean Development (US , Australia, Japan, India, China and South Korea)
- Greenland Ministerial dialogue – Aug 2005



Major buyers of Carbon Credits



- Prototype carbon fund
- Bio-carbon fund
- Community Development Carbon Fund
- CERUPT
- SICLIP
- Finland SSC tender
- Austrian CDM tender
- KfW Carbon Fund
- Italian Carbon Fund
- Spanish Carbon Fund
- Pan European Carbon Fund
- Japan Carbon Fund
- ES-SB Denmark Carbon Facility
- ES-Austria SSC facility
- IFC-Netherlands C facility
- Natsource GHG Aggregation Pool
- Latin American Carbon Programme
- Belgium CDM tender
- Canada Indian PDD facility



Buyers

- Governments (Dutch, Denmark, Austria, Finland, Belgium etc.,)
- Multilateral agencies
 - World Bank, Japan Carbon Fund, ICF, ECF...
- Financing institutions
 - IFC, KfW, DEG, SBL, HSBC, ABN Amro, Rabo...
- Private sector
 - Shell, BP, Japanese Power Cos (TEPCO, Kansai, Chubu...), Electrabel, Norsk Hydro, RICOH, Nuon....



.....Buyers

- Intermediaries (buy and sell)
 - ACG, CCM, ICECAP, CCAP....
- Brokers
 - Natsource, Evolution Markets, CO2.com, 500 PPM, Future Forest, Climate Care, Climate Trust
- Facilitators
 - Eco Securities, ACX
- Seller aggregators
 - SenergyGlobal (India)



Buyers : Inference

- Seeding for Carbon Market : World Bank
- Leaders : WB , Netherlands
- Growing Annex I Govt. CER procurement trend
- Different preferences : Sectors, Price, Risks, ERPA Terms...
- Limited Investments and Technology Transfer
- Limited success ratio & long drawn process
- Innovative pricing and procurement models introduced by several private buyers
- Competition intensifying (Buyers , KP/VER market)
- Too many sellers and few buyers (vice versa ?)



CDM Executive Board

- Expectations very high since start
- Classic example of I P P partnership
- Laudable operationalizing set-up & a few decisions
- Delivered goods so far against tough challenges
- Resource constraints delaying crucial milestones



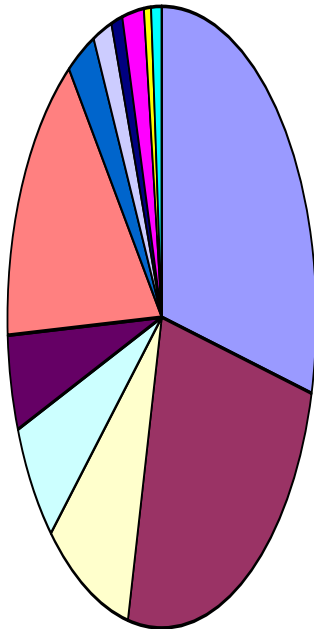
...CDM Executive Board

- Need to accelerate several folds
- Need massive infrastructure to meet registration & registry requirements
- Need to ensure minimum interference
- Additional powers essential or to convene extraordinary COP/MOP bis to decide on crucial matters



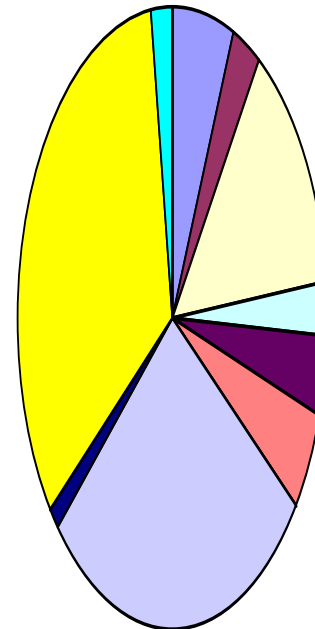
CDM Numbers

Number of CDM Projects %



- Biomass Energy
- Hydro
- Landfill Energy
- Wind
- Landfill flare
- Biogas
- EE Industry
- HFCs
- Geothermal
- Fossil fuel switch
- N2O
- Fugitive
- Energy Distribution
- EE Household
- Solar

Annual CERs from Projects %



- Biomass Energy
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Projects : 202, CERs : 46.5 Mn/yr (347 Mn) , 178 under validation, 12 registered



Designated National Authority

- Evolving
- Few successful DNAs leading the way
- Donors support – noteworthy
- Capacity retainment within DNA: challenge
- Need for a co-ordination among ministries
- Need to simplify, streamline and expedite approval procedures. SD : still a challenging issue



Designated Operational Entity

- Ambassadors of CDM EB
- Entrusted with a greater responsibility to ensure environmental integrity
- Healthy competition lowering transaction cost
- Current DOEs under tremendous work load
- Few developing country DOEs
- **Local capacity enhanced & utilized even for Annex I DOEs**



Capacity Building Donors

- World bank – The leader again ! (NSS)
- Equal and exemplary contribution from other donors (UNDP, UNEP, Japan, Denmark, Swiss etc.,)
- Areas of gain : Stakeholder awareness, Consultancy skills, FIs perception, NGOs movement, State & Central Govt. policy and promotional initiatives, Industries' participation etc.,)
- Low *“trickling down effect”* in DCs
- Need to check the levels of redundancy and
- Gap still exists in several DCs !



NGOs

- Most of the CDM CB programme implemented by NGOs in DCs.
- International NGOs high level of participation (exaggeration in few cases inevitable)
- Provide immense support to Governments
- Grass root NGOs still not in the CDM loop
- Need to build capacities of NGOs for safe-guarding SH interest and outreaching CDM benefits at local levels



Financing Institutions

- Targeted very late
- Early involvement would have solved the key issue :
underlying financing
- Increased signs of participation, currently witnessed
- Different participation levels noticed (equity, debt, guarantee
model etc.,)
- Priorities misplaced in few cases (CDM consultancy instead
of CDM financing)
- **Immediate requirement : Establish co-operation
between international and national FIs for funding CDM
projects (e.g. JBIC – Central American Bank EI)**



What buyers are looking for?

- Low risk (free) CDM projects
 - CDM regulation uncertainty (International issues dominant)
 - National Institutional risks : DNA / tax / sharing etc.,
 - Non-delivery
 - Projects with ***“financial closure”*** / Investment risk issues
 - Easy and ready to implement
 - High net worth and corporates (proven credibility)
 - Proven technology
 - Country regulatory scenario (additionality)

Underlying principle

Low cost high volume risk free CERs



EUA Vs CER : Pricing Issue

Why CER price cannot be EUA price ?

- Spot trading : actual transaction of EUA 2005 (including few futures)
- Spiraling oil prices : increased usage of coal
- Registry and Trading practices streamlined
- Penalty oriented (40 and 100 Euro / ton of CO₂)
- Initial excitement and players stimulating transactions

CER price merging with EUA price !!!

- Price not consistent with volume
- Daily transaction (0.5 to 1 Mn); fraction of overall allocation (2.2 bn CO₂/yr)
- EUA price fluctuation already (excitement management & enlargement of subset)
- EUA (Phase I) is not formally a Kyoto Commodity *
- Pumping of CERs into market : ITL a key
- Swapping EUA with CER : bankability
- Penalty oriented (40 and 100 Euro / ton of CO₂eq) + ER

* Eco Securities



The Price question !

- CER Price basis : currently practiced
 - Government Purchases (Low, fixed and sector based)
 - World bank, JCF etc.,(Low, fixed, risk taking, sector & Vol.)
 - Private sector directly negotiated fixed price
 - EU – ETS : weighted average / percentage of EUA price
 - EU ETS – penalty based
 - Gold Standard
 - Voluntary markets (events, corporates, FIs)
 - Social credits



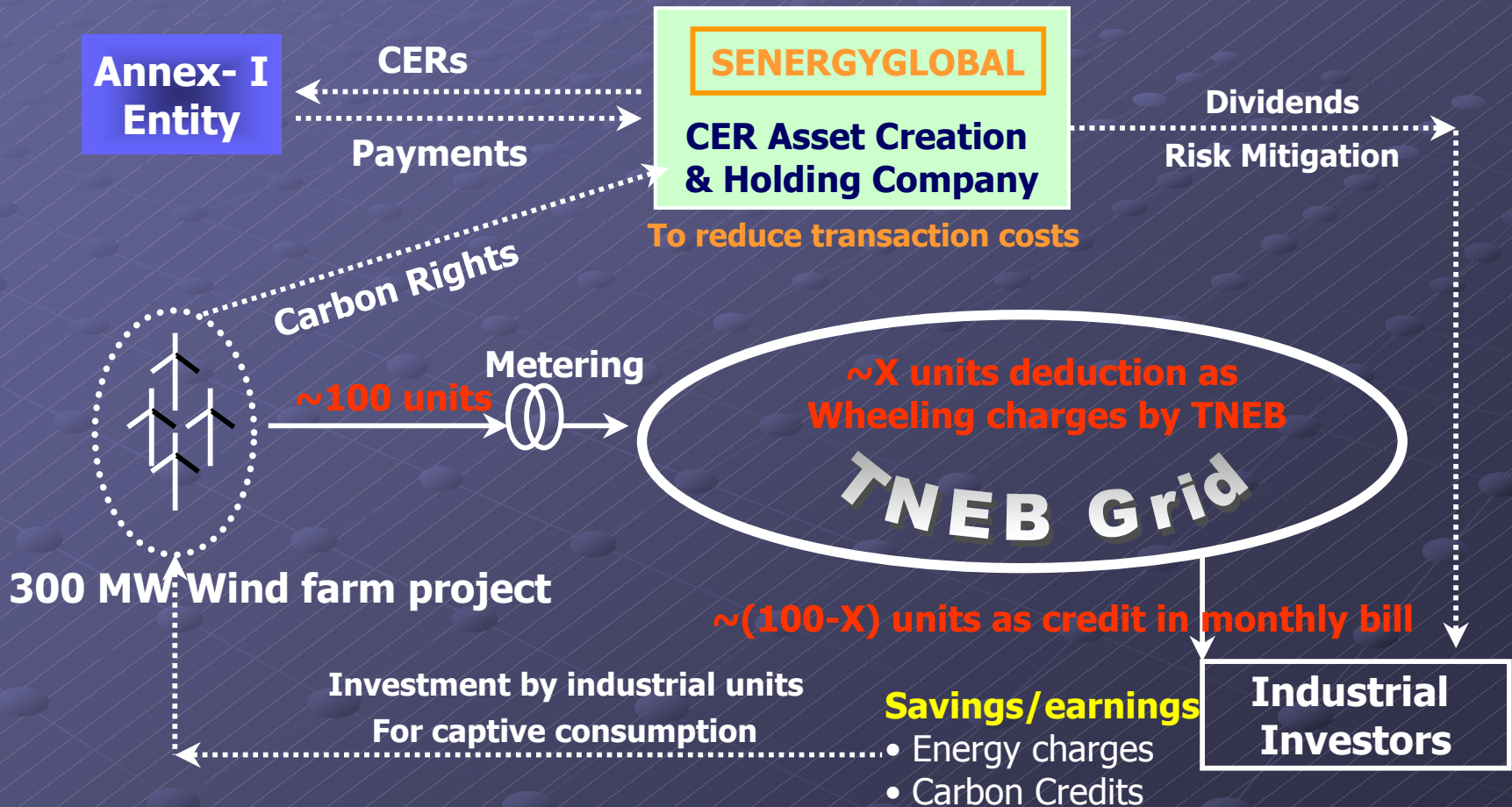
Still CDM remains.....

- Hundreds of projects developed and under development
- Emerging CDM consultancy : unique skills
- Procurement patterns established
- Transactions taking place (forward contract)
- NGOs movement picking up
- **Structuring becomes the key**

.....yet a CER to be issued !



Project structuring for CER Assets (order of the day)





About Asia Carbon

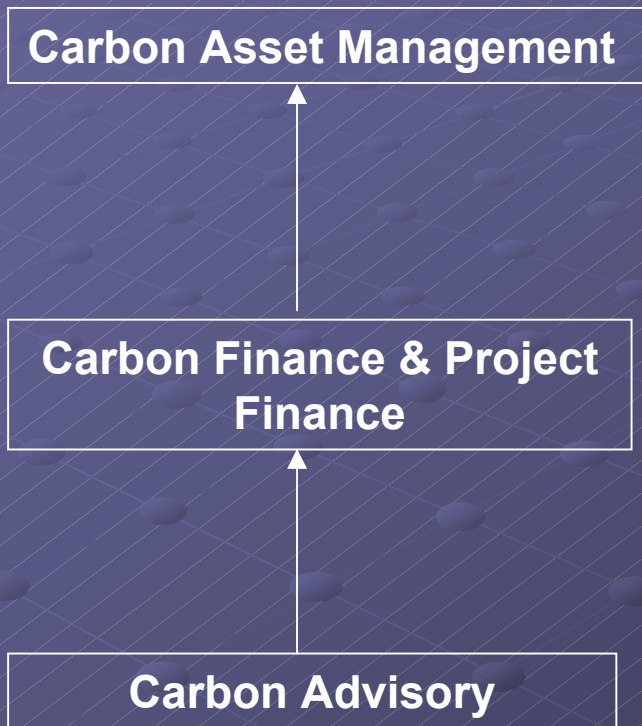


ACI Group of Companies

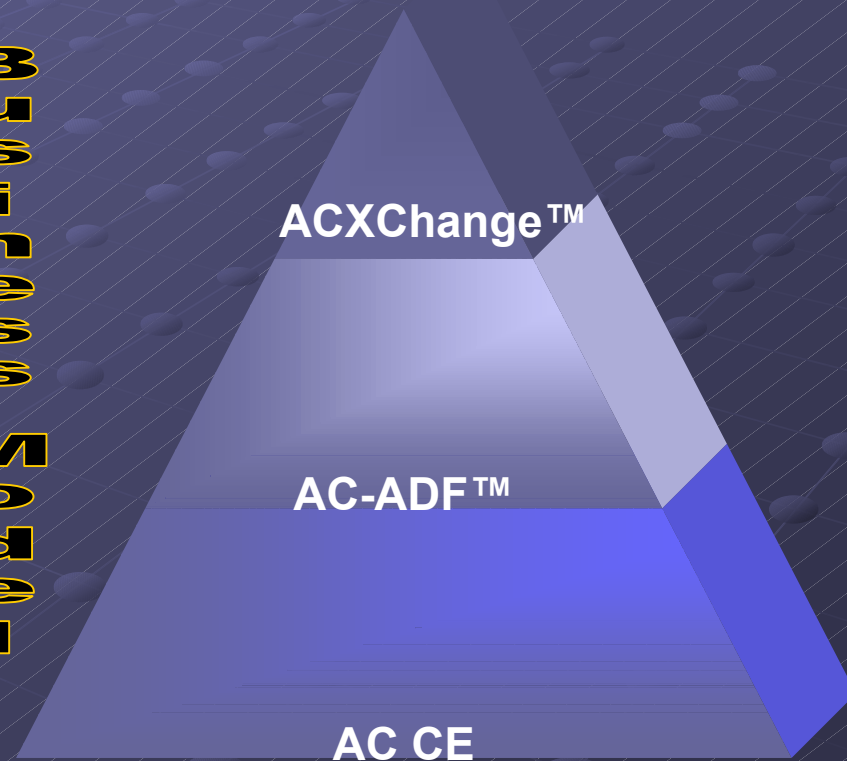
- Founded on Feb 4 2003
- Headquartered in the Netherlands
- Asia Pacific Regional presence in Singapore
- CDM Centre of Excellence in Vietnam –
 - Asia Carbon Vietnam hosted in RCEE
- Offices in Malaysia, Indonesia and Australia
- Working partners in Sri Lanka, India, Philippines, and Suriname



Core Business Model – A Vertically Integrated System



DE-HA-ZO-CH-ZI-Y-FLA-CI-R-M-V
-000Z-0000-0000





AC-aDF™

- Operational since February 2005
- Initial Corpus: USD 200,000 and growing
- Objectives:
 - 1) identify, fund & develop PDDs for CDM projects
 - 2) harvest and management of Carbon Assets
- Status :
 - 3 PDDs in Vietnam submitted to DNA
 - 3 PDDs under development in India
 - Few identified and finalisation in India, Malaysia, Indonesia, Sri Lanka, Suriname, Singapore and Philippines



ACX-Change™

***First CDM focused exchange in the World..
To aggregate sellers of carbon credits from
developing countries...***

- Web based 24 x 7
- Soft launch – Carbon Expo - May 2005, Cologne, Germany.
- Fully operational by end 2005
- Virtual on-line platform with built in registry, trading, clearing and settlement facilities
- Partnered with *new values* (Climex, The Netherlands)
- Contact us if you have a CDM PDD for sale of CERs



**“The supreme reality of our time is the vulnerability of our planet.”
– John F. Kennedy**

Thank you

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