



EcoSecurities Group plc

Why Bother with Project Mechanisms? Thoughts From a Hopeful but Frustrated Practitioner

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The CDM is created from whole cloth

- Possibly the first regulatory system that **creates value**, rather than intermediating value that already exists
- An enormous task—potentially unlimited number of project types, locations, counterparty types, emission reduction methodologies
- System bridges multiple countries and the UN
- Enforcement largely managed by private sector, media, civil society
- Imperative need for independent, third party accountability

Creating CERs is *not* a zero-sum transaction

- The concept of “**additionality**” is plausible on the surface, but ranges in qualitative interpretation among different observers



The Positive and the Negative

- Complex system up and running
- >1150 projects UN registered
- >3000 more in the pipeline
- Gross current projection is 1-2 billion tonnes of reductions
- Successful early projects are extraordinarily concentrated
- 23 of those 1150 projects have generated 75% of total credits to date (135M out of 180M tonnes)
- System is overly complicated and is becoming almost impossible for small projects to gain access
- Net projection from most analysts continues sliding downward



- The hardest part is over
- “Learning by doing” has created significant CDM expertise base
- Many failures can be attributed to “over-success”
- Solid proof that markets can indeed achieve social objectives
- High value, immediate return projects are done
- Dwindling Kyoto timeframe = little incentive to invest in next set of projects
- Great uncertainty today about what happens after 2012
- Current additionality construct makes many CER projects highly unpredictable
- **All this constrains investment flows dramatically**



Registration Process & Timelines

- Request for registration period is 8 weeks (4 weeks for small scale); however currently the average time taken is 5 months (4 months for small scale).
- Compounded by delays in the validation process (up to 12 months)
- Problem: credits can only be accrued after the project is finally registered (1.5% for each month lost on operational assets)
- What has caused these delays?
 - UNFCCC Completeness Check
 - New rules & guidance added
- Possible solutions:
 - Registration date could be date of submission
 - Setting deadlines for checks – good progress on this
 - Allow the DOEs to use professional judgement





Where do we stand today

- There are approximately 300 projects fully submitted to the CDM EB for registration
- Fully 12 were registered in August
- As of 15th September ONE MORE had been registered
- Secretariat has stated that they hope to process 50 per month – this would no doubt be a record
- Nonetheless, it would still leave as the end of a year with a backlog of substantial proportion – even if no further projects go in (HA!!!)
- **Is the system at the breaking point?**



Quickly Reviewing two years of “progress” The Issuance numbers

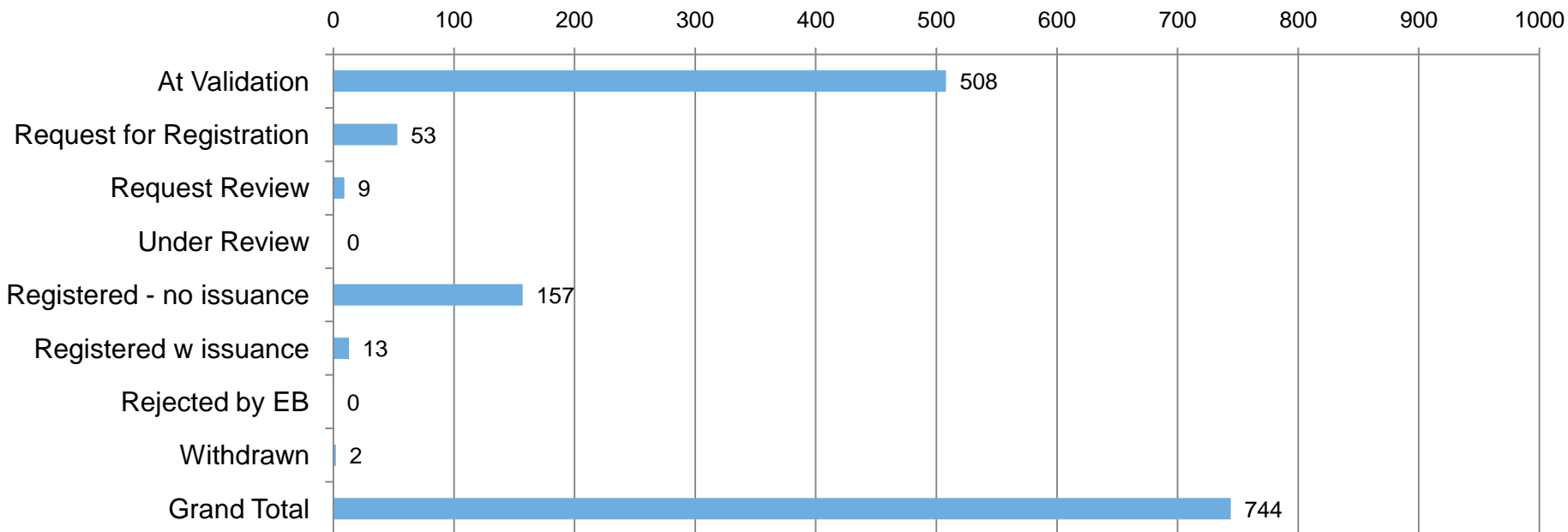
13 projects have issued CERs, a proportion of 1.75% (May 2006)



CDM Project Status

Source: UNEP Risoe Pipeline Last Updated 03 May 2006

■ Number of PDDs



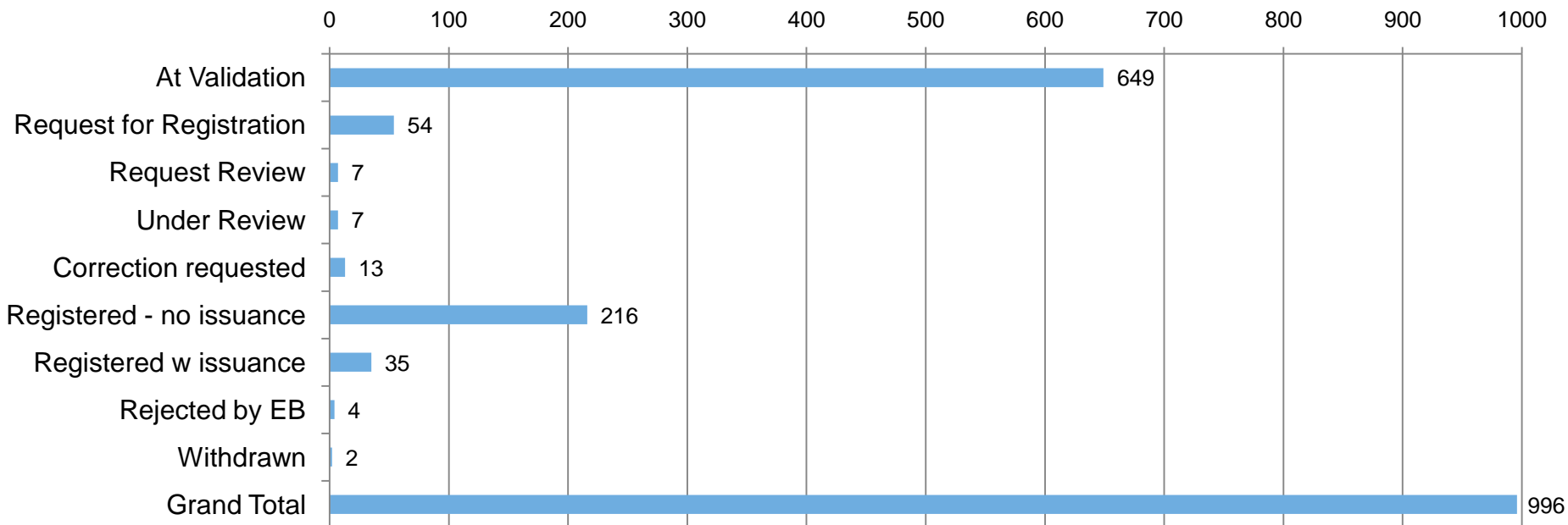
35 projects have issued CERs, a proportion of 3.51% (August 2006)



CDM Project Status

Source: UNEP Risoe Pipeline Last Updated 09 Aug 2007

■ Number of PDDs



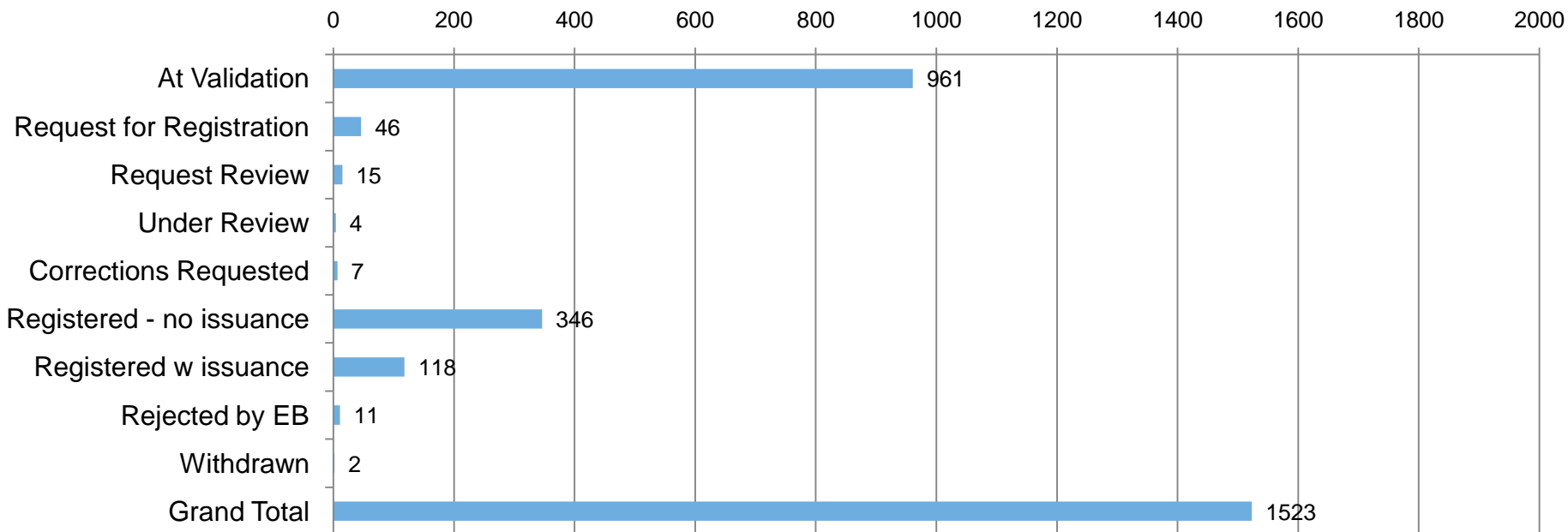
118 projects have issued CERs, a proportion of 7.75% (January 2007)



CDM Project Status

Source: UNEP Risoe Pipeline Last Updated 11 Jan 2007

■ Number of PDDs

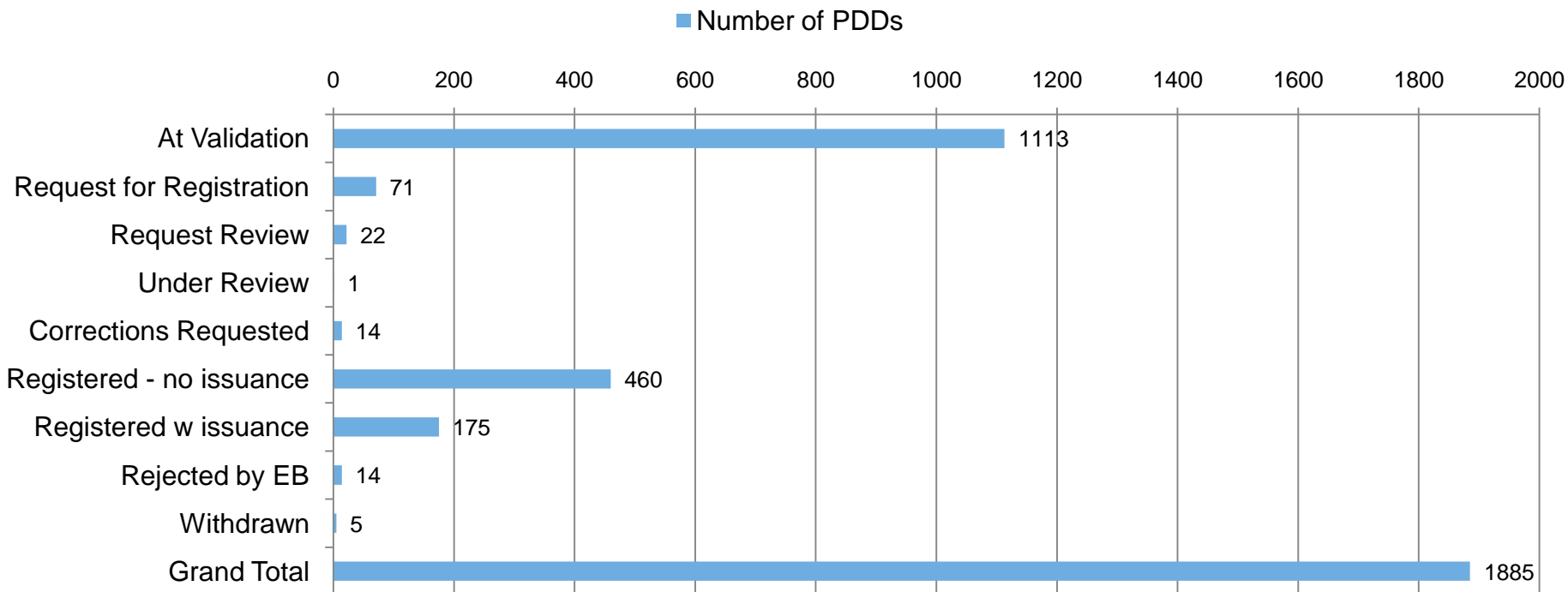


175 projects have issued CERs, a proportion of 9.28% (May 2007)



CDM Project Status

Source: UNEP Risoe Pipeline Last Updated 01 May 2007

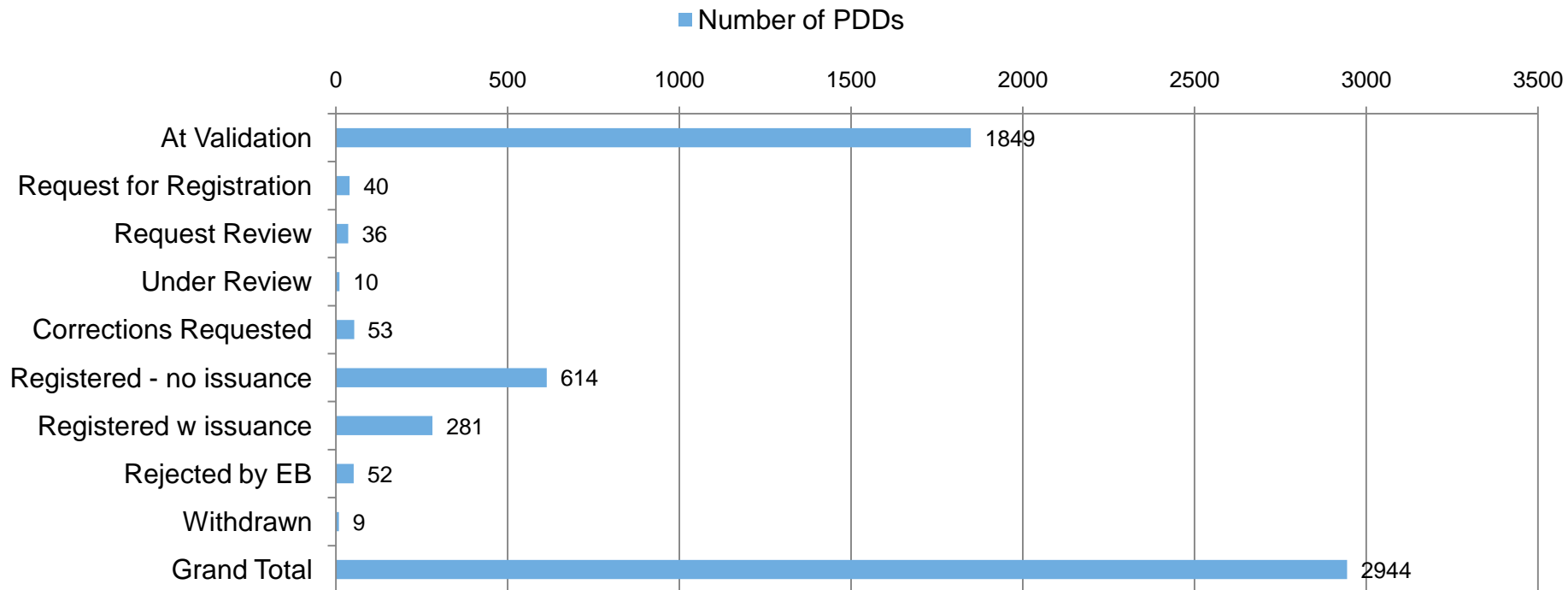


281 projects have issued CERs, a proportion of 9.54% (January 2008)



CDM Project Status

Source: UNEP Risoe Pipeline Last Updated 08 Jan 2008



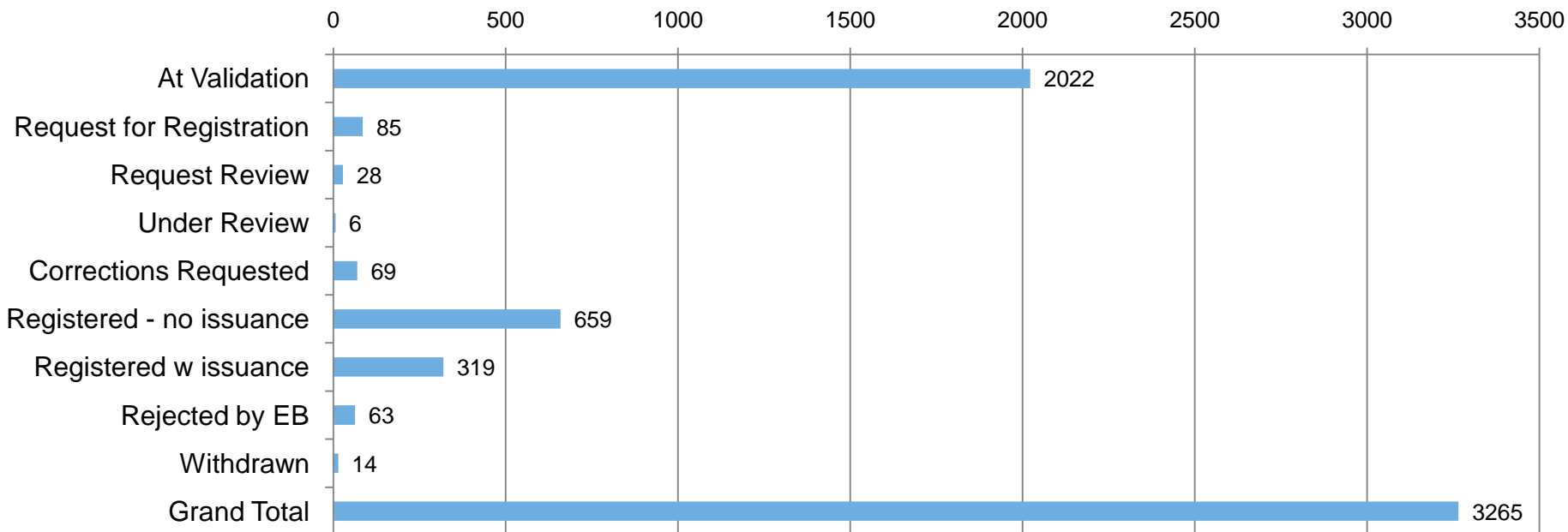
319 projects have issued CERs, a proportion of 9.77% (April 2008)



CDM Project Status

Source: UNEP Risoe Pipeline Last Updated 01 April 2008

■ Number of PDDs



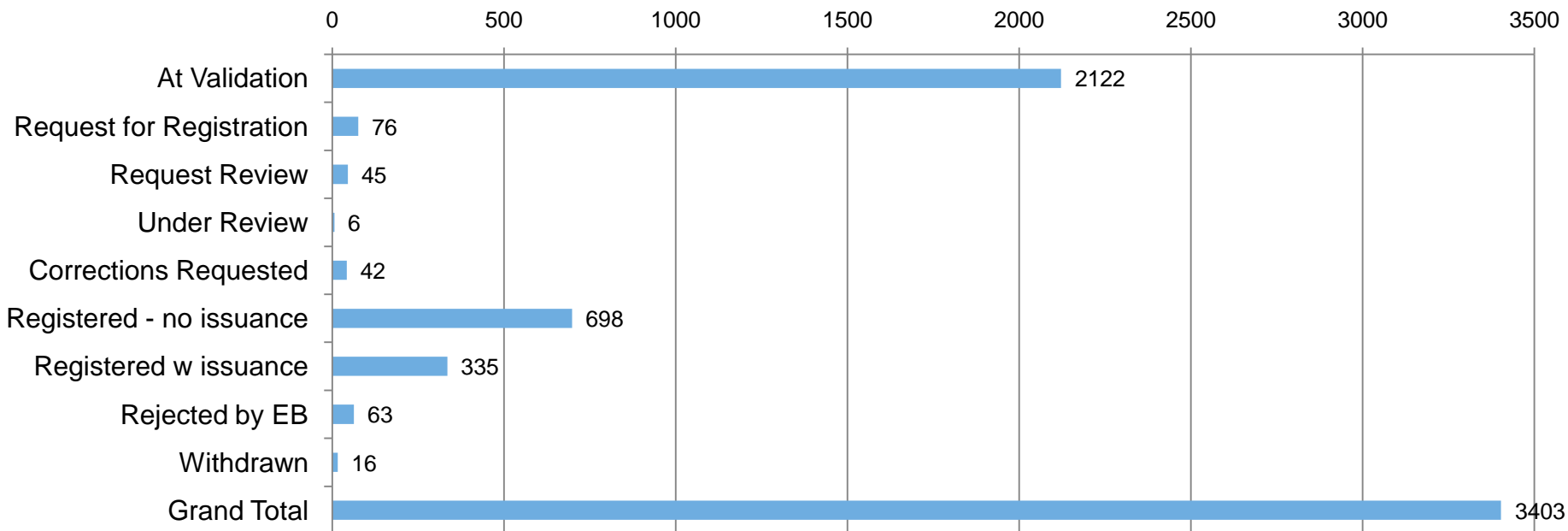
335 projects have issued CERs, a proportion of 9.84% (May 2008)



CDM Project Status

Source: UNEP Risoe Pipeline Last Updated 01 May 2008

■ Number of PDDs

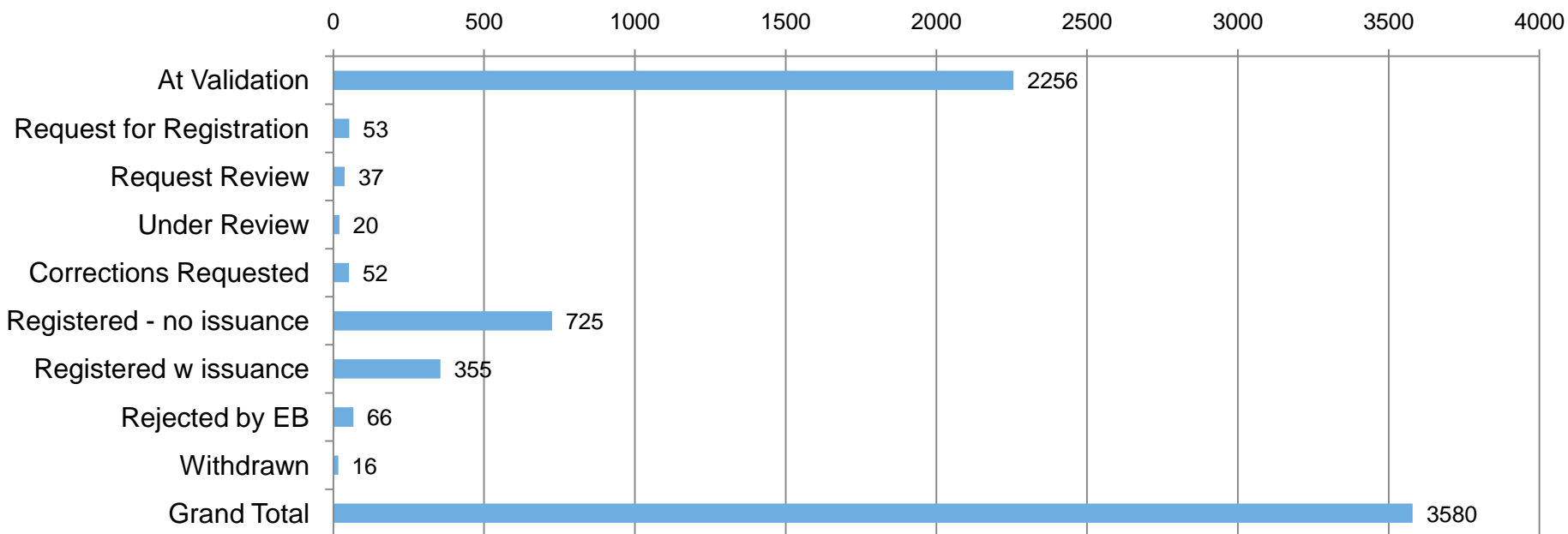


355 projects have issued CERs, a proportion of 9.92% (June 2008)

CDM Project Status

Source: UNEP Risoe Pipeline Last Updated 01 June 2008

■ Number of PDDs



Last Month

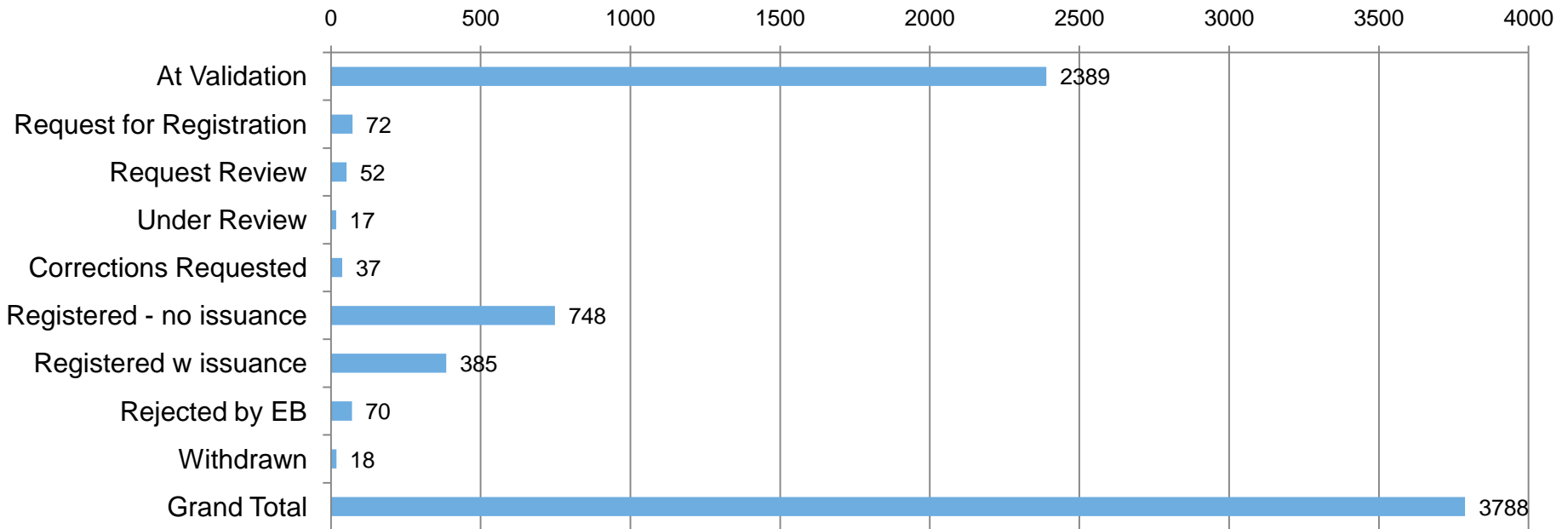
385 projects have issued CERs, a proportion of **10.16% (August 2008)**



CDM Project Status

Source: UNEP Risoe Pipeline Last Updated 01 Aug 2008

■ Number of PDDs



This Month

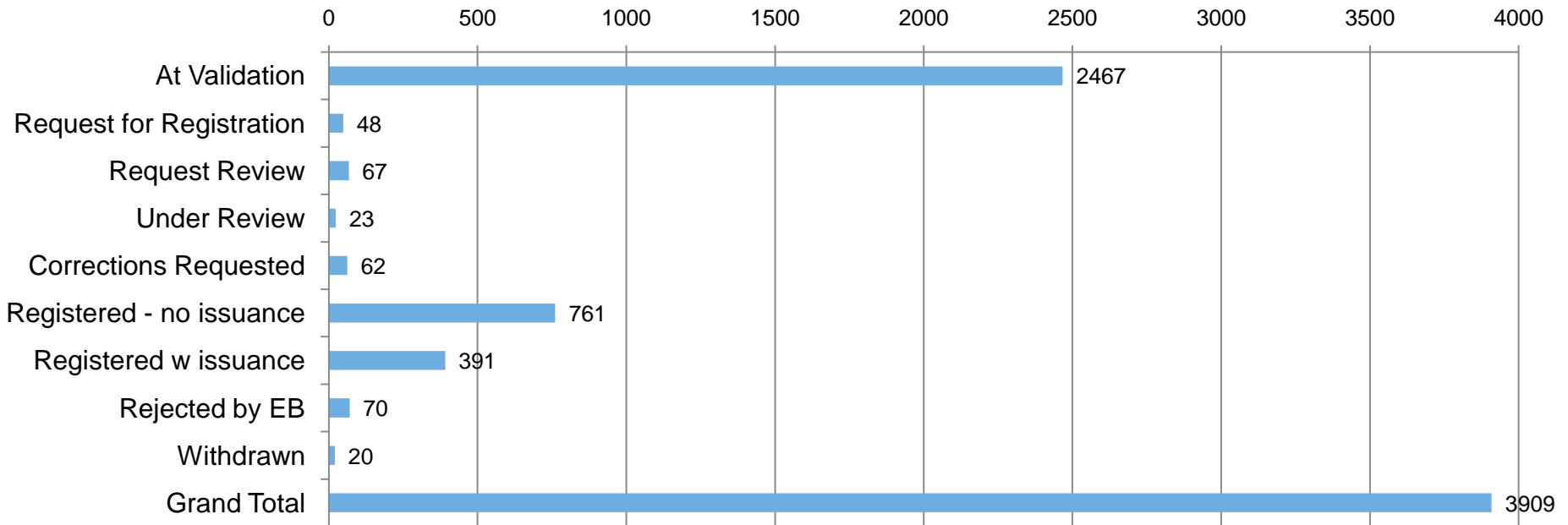
391 projects have issued CERs, a proportion of 10.00% (Sept, 2008)



CDM Project Status

Source: UNEP Risoe Pipeline Last Updated 01 Sept 2008

■ Number of PDDs





Fool Me Once, Shame on You...

- To those in the industry, policy shifts and regulatory performance backlogs are bewildering and disturbing
- Capital markets have provided billions to funds, companies and technologies based on the assumption of stable policy and regulatory execution
- Won't easily get another bite at the financial apple if capital markets believe that climate policies are too malleable and unpredictable
 - Many of us remember when the banks were *not* at the table, not competing with us and not providing capital to the market and ideas to the dialogue

Capital markets are not “optional” in a global transition that will require the mobilization of €trillions



Long Term Goals of Climate Policy?

How about...

- **“Developing an effective, global, low-carbon infrastructure across all economic sectors & stages of national development, driven by scientifically established emission reduction targets”**
- Accelerating development and diffusion of technologies that can achieve this goal should be paramount
- Emission reduction tonnes provides a good - but imperfect - indicator that helps focus developers by providing direct financial incentives
- Ultimately, we need to influence broad trends, not haggle over a few tonnes — but every game needs a scorekeeper



Maximizing the potential to achieve these goals

Project Based mechanisms potential to promote innovation, finance and execution require:

- 1. Long-term (20++ years) commitments to policy that reward/penalize relative GHG performance via a market**
 - Kyoto period of five (5) years is *way* too short, particularly for the next generation of project types (RE/EE, CCS, LULUCF, NUCLEAR?)



Maximizing the potential to achieve these goals

2. **Predictability and Transparency of decision making**
 - Both outcome - and timing of outcome - on too many projects is unsure, which impacts returns and willingness to invest
 - The CDM has gotten less transparent and predictable – not a good trendline



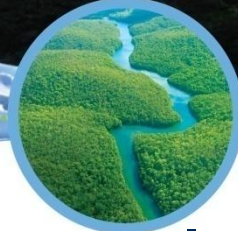
Maximizing the potential to achieve these goals

- 3. Simplification of process—conservative can be a substitute for exactness**
 - We will NEVER account for every hypothetical ER tonne;
 - We CAN create a positive atmosphere to accelerating the trend to a low-carbon economy



Maximizing the potential to achieve these goals

4. **We need to move to at least some “top down” determination of additionality**
 - Bottom up additionality is no less controversial, but draws many times more resources
 - The regulator – i.e. the political process - needs to take more direct responsibility and accountability
 - Would free up enormous resources that are current tied down in minutiae
 - Policymakers choosing some “winners and losers” is not the end of the world



Maximizing the potential to achieve these goals

5. **We should consider whether validation and verification should be directly contracted by the regulator**
 - There are antecedents both ways
 - Current system creates complications when there are controversies
 - Compounded by the fact that an oligopoly
 - Not optimal for my current business model, but I am thinking about systemic efficiency and fairness
 - **NOT ENDORSING THIS – JUST THINKING OUT LOUD**



Maximizing the potential to achieve these goals

6. A multibillion dollar global market needs regulators that can devote appropriate effort to the position

- Currently 8 day jet lagged, 3 day meetings a year
- Individuals with very little business or regulatory experience and full time other positions
- Empower – but hold accountable – the secretariat to keep the process moving
- Make the EB more of a policy setting body that also oversees a real appeals process (currently missing)



Fool Me Twice, Shame on Me

- Innovation and determination must be rewarded
- Important that early adopters and risk takers not have the rug pulled out from under them by arbitrary policy shifts and regulatory gridlock
- Risk pulling a “bait and switch” on a key climate change/sustainable development tool that has engaged the developing world with profound effect
- This could have profoundly negative impacts on future negotiations between the OECD and G-77 on these issues



1. **MARKETS WORK** – but designing them to fit the specific policy goal is critical
 - Markets are not the only solution, but an important arrow in the policy quiver
2. Out of nowhere, CDM has created a global class of “carbon entrepreneurs” seeking to participate in this market
 - Give people a transparent incentive to achieve an environmental objective and the uptake is both broad and deep
3. Capital and Technology Markets are ready to help
 - However, uncertainty around the future regime is already closing the capital tap, which is crucial
 - A top-down additionality approach for certain segments would be an appropriate shift

We only achieve “learning by doing” if we keep doing!!



Thank You

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