

SUBMISSION TO UNFCCC EXECUTIVE BOARD OF THE CDM

RESPONSE TO THE CALL FOR PUBLIC COMMENTS AND INPUTS REGARDING EFFICIENCY IN THE OPERATION OF THE CDM AND OPPORTUNITIES FOR IMPROVEMENT

The UNFCCC Executive Board called for inputs following their 46th meeting in March 2009. The Abu Dhabi Future Energy Company (Masdar) Carbon Management Unit wishes to make the following input to the Executive Board (EB) and requests that these comments are considered along with other submissions. Masdar wishes to encourage the Board for the continuing steps that they are taking to improve the CDM process, including this call for public comments and encourages the Executive Board of the UNFCCC to maintain the momentum that has been started in improving the process.

1. UNFCCC BOARD SPECIFIC COMMENTS

- Masdar suggests that the EB continues to increase the number of sectoral technical experts in various capacities within the board and different panels of CDM. This will benefit the wider applicability and scope of new methodologies, existing approved methodologies and potential projects.
- The current efforts to increase both communications and transparency with the CDM process are acknowledged and supported. We encourage these efforts to be maintained and increased, especially with project participants and DOE's to maintain the rigor and understanding of projects.
- It is pleasing to note that resources assigned to the CDM within the UNFCCC have increased considerably. We hope that such increase in resources is maintained, streamlined and properly allocated to prevent internal administrative delays in the future.

- We feel that there should be an appeal or arbitration system within the UNFCCC whereby a project developer may submit a request for arbitration on such elements as potential conflict of interest by a reviewer; differing interpretations, apparent inconsistencies etc.

2. MASDAR INITIATIVE SPECIFIC COMMENTS

Masdar is developing a sustainable city which will include many opportunities to maximize carbon emission reductions in comparison to other cities within the country and internationally. To achieve this goal, Masdar wants to be a global leader and use innovative and in many cases, commercially untested technologies, which makes it necessary to plan and implement in a relatively short space of time. The entire city project is planned to be finalized within 8 years (final construction to be completed in 2016), and includes an entire city with all facilities necessary to support 50,000 citizens and an additional 40,000 daily commuters.

- The current CDM process and criteria make it very difficult for a “project” like Masdar City to be CDM compliant. The current approaches and regulations are not supportive of a fluid and flexible approach to planning that is necessitated by an innovative project of this scale.
- Masdar has always considered Carbon revenues into all financial models and calculations to support our idea of sustainable city development. Masdar would like to suggest that the CDM criteria and their application are more adaptable and take into account the incremental and continuous changes in “new” technology application over the implementation phase of a project.
- The current application of CDM criteria and how they are applied by a DOE, makes it difficult to change the project scale or utilized technology over any given time within the project boundary.
- While Masdar understands and agrees that each criterion needs to be addressed thoroughly, we also believe that this stifles flexible project planning for projects that apply innovative technologies and attempt to provide a fundamental step change in the emission reductions over current applications. This is especially true for a sustainable city of this scale with ambitious time and scale target.

- Urban planning is currently not fully covered under any approved methodology; therefore, Masdar will proceed with the development of new methodologies which fit our scope and objectives. Due to the innovative and fairly specific nature of the Masdar City initiative, we feel that it would be beneficial to both the UNFCCC and more specifically, the methodology panel, to have a presentation of the methodology for scrutiny and clarification. We propose that methodology developers have an opportunity to introduce their methodology to relevant stakeholders in a forum and also get the opportunity for open discussion and understanding of requirements from the UNFCCC. We would appreciate the implementation of a platform for presentations and discussion for mutual transparency and understanding for methodologies.
- Most of the projects currently in the pipeline are focusing on financial additionality of the project itself, as it is easy to provide evidence compared to the barrier discussions. DOEs are currently supportive of this approach. Masdar would welcome more efforts in promoting technology transfer rather than financial additionality alone. Our current projects mostly focus on innovative application of technology and ideas which, to date; have not been implemented anywhere else in the world in such scale. Financial additionality is difficult to defend in these projects, especially in terms of how CDM revenue can make a significant difference during the decision process as the CDM revenue compared to the investment is relatively minor, and any project of this scale and nature is required to be a strategic imperative of the project developer. Therefore we would appreciate the inclusion of barrier discussions like innovation and the connection to research and development. We believe that a lot of the work we do in urban development can make a difference to the future of urban planning. Masdar works closely together with universities and other Institutions to deliver the results of our work to a broader audience in the hope that it will lead to a sustainable domino-effect and positive change in the future of urban planning. We believe that other barriers like Innovation and the connection to research and development should be accounted for and weigh equally in selected CDM projects.

3. SUB SAHARAN AFRICAN SPECIFIC COMMENTS

Sub Saharan Africa, including South Africa – if one compares its relative size and CDM potential to the actual number of registered CDM projects – has under delivered in comparison to much of the Non-Annex I world. In order to improve the CDM process in Sub-Saharan Africa, some of the following could be considered:

- Business inertia against CDM. CDM is seen as a non-core opportunity and is often assigned to non-core functions of the business, such as environmental, risk or business development departments. Senior management and business decision makers are often aware of CDM, but do not necessarily make any association between CDM and true potential business value add. The capacity building and awareness raising to date appears to have been successful with institutions (such as DNA's) and potential CDM project developers (such as environmental consultancies looking to expand their business into CDM) or individuals within business, but not the business decision makers per se. Future capacity building and CDM awareness building should be undertaken along a more business orientated approach is suggested – including targeted sessions for business leaders and senior management.
- The transaction costs of CDM prevent a number of the smaller projects from entering the CDM process. Although both bundling and POA's have tried to address this, until these deliver successful projects, uptake of these forms of CDM will remain lower. Many emission reduction projects are of such a small nature (e.g. solar power for a community water pumps, single mini-hydro for a village; efficient wood stoves for community food projects etc.). Currently these would be excluded from a realistic CDM process by their size, so the POA and Bundled processes should be relooked at to assess their real viability and need in the current and future "CDM" market.
- Finance also remains a constraint for projects in Africa. Large multi nationals generally manage their traditional project portfolio adequately, but the smaller industrial sites and community projects often need to rely on external finance for project development. Often strict financial additionality and monitoring and verification requirements exclude projects as the medium

term longevity of the project generally is one of higher risk and hence not likely to raise external equity from a traditional source.

- Political instability and a lack of general infrastructure often hinders potential CDM projects as potential investors are also looking globally, including regions such as the Middle East, South East Asia and South America, which generally offer a lower risk profile in these areas. Although external to the CDM, this could be considered in additionality criteria evaluation for the region.

4. MIDDLE EAST AND UNITED ARAB EMIRATE SPECIFIC COMMENTS

- The Middle East has relatively few registered project in comparison to the remainder of the Non-annex I world. It is suggested that current and past initiatives by the UNFCCC to raise awareness of CDM and build capacity within the region are to be continued and expanded. This could be promoted through respective DNAs and aimed specifically at the project owners from various industries. Although the oil & gas industry offers the largest potential for CDM project development, other industrial sectors should also be targeted throughout this region.
- The oil and gas industry has a large potential to reduce global emissions, to date the methodologies that are applicable are either too project specific, or thwarted by financial additionality criteria.

Masdar encourages the UNFCCC to continue their focus on the Middle East and North Africa (MENA) region and provide more stimuli where not many CDM projects have been seen to date.

CONCLUDING REMARKS

Masdar Carbon Management Unit appreciates the effort the UNFCCC EB and its various committees and panels put into the development and promotion of the CDM. We welcome all efforts for improvement and it is apparent that while resources have been increased so has the work load and accelerated project pipeline.

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We thank the UNFCCC EB and its panels in giving us the opportunity to submit our ideas, concerns and suggestion and look forward to a better mechanism in the future, including post-Kyoto.