

January, 15, 2012

To Whom It May Concern:

The Partnership on Sustainable, Low-Carbon Transport (www.slocat.net) presents this letter in response to the Clean Development Mechanism (CDM) Executive Board's call for inputs to the "CDM Policy Dialogue." The Partnership is a voluntary, multi-stakeholder initiative with over 65 member organizations and dedicated to improving knowledge on sustainable low-carbon transport. Specifically, the inputs included here were developed for the SLoCaT Partnership by the Asian Development Bank, the Clean Air Initiative for Asian Cities, the Energy Research Center Netherlands and the Institute for Transportation and Development Policy. The comments and suggestions focus first on CDM sector performance, secondly on barrier identification, and finally on suggestions for enhancement.

The Urgency for Stronger Representation of the CDM in the Transport Sector

The need for investment in climate change mitigation in the transportation sector is especially urgent, but due to several barriers in the CDM institution, it is significantly under-invested in the sector relative to its share of global GHG emissions. According to the IEA, the transportation sector currently accounts for 13 per cent of all greenhouse gas (GHG), 27 percent of energy-related GHG emissions, and its emissions are projected to rise 80% by 2050 in a business-as-usual scenario making it the fastest growing source of GHGs.¹ As of January, 2012, 47 out of 7,532, projects in the CDM pipeline were related to transport, only 11 of which had been registered. These 47 projects are expected to reduce 5.5 MtCO₂-eq/yr up to 2012 – just 0.5% of the total reductions of the current pipeline.² In order to best position the CDM to make effective contributions to future global climate action, barriers to investment in the transportation sector must be addressed.

Barriers to CDM Investment in the Transportation Sector

The barriers which prevent the CDM from investing in the transportation sector commensurate with the sector's share of global emissions relate to the size, scope, and complexity of the transportation sector. Specifically, the low share of transport projects in CDM can also be explained by the following barriers:³

- a) **Difficulty in determining additionality**, e.g. due to the small share of CER revenues in the total initial project cost and the fact that mitigation actions in the transport sector can be implemented for a multitude of reasons;
- b) **Difficulty in establishing the baseline scenario**, due to the fact that a multitude of scenarios can be made plausible; complexity in designing methodologies and

¹ IEA, *Energy Technology Perspectives 2008* (Paris: 2008).

² UNEP Risoe CDM/JI Pipeline Analysis and Database. Available at: <http://www.cdmpipeline.org/cdm-projects-type.htm#2>

³ ADB and CAI-Asia, 2010, *Rethinking Transport and Climate Change*. ADB Sustainable Development Working Paper Series, Asian Development Bank, Manila; Millard-Ball, A., Ortolano, L., 2010. *Constructing carbon offsets: the obstacles to quantifying emission reductions*. *Energy Policy*, 38: 533– 546; Grutter, J, "Transport and Carbon Finance," Manila, 2010. Slides available: <http://www.scribd.com/doc/46445414/Transport-and-Carbon-Finance>

- modeling tools appropriate for the CDM, including, for example, rebound effects; lack of data required to apply the methodologies;
- c) **Approved methodologies not yet available for** several common types of transport projects which can mitigate GHG emissions, for example non-motorized transport and integration of transport and land use planning;
 - d) **High costs for monitoring and certification** due to the fact that emissions from individual sources are relatively small and dispersed;
 - e) **Difficulty in determining life cycle emissions** for bio-fuels specifically;
 - f) **Lengthy processes and high uncertainty** in methodology and project approval and financing;
 - g) **Lack of consistency** in Methodology Panel recommendations, frequent changing of rules create an inconsistent and unpredictable environment;
 - h) **Financial risk** due to the uncertainty surrounding the future of climate markets and carbon prices.

Suggestions for Enhancing CDM Transport Sector Performance

Since CERs often cover such a small portion of actual project costs for transportation projects, it is recognized that CERs can only play a small part in financing the cost of sustainable infrastructure. Two key areas that have been identified as well-suited for climate financing due to low funding from other sources and high impact potential are financing for institutional capacity building and policy support for sustainable transport.⁴ A number of relatively small changes in the rules, methodologies, and supplementary programming of the CDM have been identified by the endorsing parties, various transport experts, and in recent meeting UNFCCC workshops. These are summarized below:⁵

- a) **Lower costs of certification of emissions wherever possible** by reviewing cost, nature, and necessity of monitoring requirements for all transport parameters. For parameters that are very costly, consider revisions which lower monitoring cost. For parameters that do not change frequently, consider less frequent monitoring periods (such as the leakage emissions from changes in the load factor of busses and taxis after the implementation of a mass rapid transit system and in the impact of reduced congestion as a result of the project activity could be monitored on an annual basis). For parameters that are not highly variable, consider employment of default values.
- b) **Reconsider additionality requirements** to reflect the specificity of transport projects under CDM. This could include incorporating a positive list of technologies or project types, which are not yet currently common practice in developing countries (e.g., bus rapid transit systems, mass rapid transit systems, bike-sharing systems, transportation demand management strategies, electric and hybrid vehicles), to be considered as additional by default⁶. A final decision on this would however have to consider the impact of environmental integrity of the CDM as a whole.

⁴ Dalkmann & Sakamoto, *A Paradigm Shift Toward Sustainable Transport*, ITDP, 2010.

⁵ Workshop: "UNFCCC Practitioners Workshop: Improvement of CDM Methodologies for Transportation," 10-3-2011, Bonn. Summary available: <http://cdm.unfccc.int/methodologies/Workshops/transportation/rep.pdf>

⁶ This was a proposal by J. Grutter, *ibid*.

- c) **Consider measures to shorten time-frame for receiving financing and lower risk** by streamlining payment process, and locking in a CER price at an earlier stage in the project development, and delivering revenues earlier.
- d) **Provide training** to main stakeholder groups, including DOEs, major project promoters, financial institutions to promote transportation projects under CDM. They may be encouraged to develop useful methodologies.
- e) **Facilitate data procurement** via creation or collaboration with other on-going transport data initiatives to create a global database of regional, national and local transportation data to serve as a data source which, combined with existing transport models, can help generate baseline information and, this way, help the overall project cycle.
- f) **Further promote sector-based and geographical-based CDM.** By permitting the bundling of multiple measures across a sector (e.g. transport) or a geographical area (e.g. a metropolitan boundary), many of the above noted methodological difficulties are avoided. A city-based approach, for instance, would potentially permit the use of a fuel-based methodology, which would be both low cost to implement and highly accurate."
- g) **Develop common standardized emission baselines** which can incorporate all modes of transport. This can lead to a baseline that is useful in any energy efficiency or fuel replacement project.
- h) **Consider a top-down methodology approach for the development of new transport CDM methodologies** for project activities with low/medium replication potential and for country/region specific GHG reduction activities.
- i) **Ensure transport sector expertise is adequately reflected in the membership of the panel conducting the Policy Dialogue** on the Clean Development Mechanism, the Methodology Panel and the Executive Board.

We hope that you have found our comments and suggestions constructive and than you for your giving them your consideration. We welcome any further questions, comments, or responses you may have.

Best Regards,

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