Clean Development Mechanism and Joint Implementation

Topic for Endorsement

B. Vanderborght
SEP Committee, April 13-14, 2005
CDM & JI

- CDM & JI: what it is, procedures and red tape
- CDM in the cement industry
- CDM: How to go from here?
- Items for discussion
Business-as-Usual, CDM/JI and credits

BaU = Emissions based on the „Business as Usual“-activities

CDM/JI = Emissions from CDM/JI activities
### Differences between CDM and JI

<table>
<thead>
<tr>
<th>JI</th>
<th>CDM</th>
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</thead>
<tbody>
<tr>
<td>Credit deducted from the Cap of the host country</td>
<td>Credits generated from countries without emissions Cap</td>
</tr>
<tr>
<td>Credit added to the Cap of the investment country</td>
<td>idem</td>
</tr>
<tr>
<td>Zero impact on the total Cap of Annex B countries</td>
<td>Increase of the total Cap of Annex B countries</td>
</tr>
<tr>
<td>Therefore additionality not an important topic</td>
<td>UN (CDM EB) watches over additionality</td>
</tr>
<tr>
<td>EIT-authorities are open for selling credits</td>
<td>UN CDM EB is a very severe supervisor</td>
</tr>
<tr>
<td>Credits will be subtracted from allowances in EU ETS</td>
<td>Credits can be added to allowances in EU ETS</td>
</tr>
</tbody>
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CDM process

PIN: Project Idea Note

Proposal of Methodology for:
- Additionality
- Baseline
- Monitoring

Methodology Approval by UN Executive Board

Proposal of Project according to approved Methodology:

Verification / approval by third party (TÜV, SGS, …)

Methodology Approval & registration by UN Executive Board

Realization of project

Yearly monitoring & certification by third party

Creation of Certified Emission Reduction Units

Any moment: forward sale of credits, at risk premium
Red tape: additionality

- Kyoto protocol and Marrakesh accords: „ecological additionality“
- UN CDM Executive Board: „financial or investment-additionality“
CDM & JI

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Holcim & Cemex Mexico

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Heidelberg Indonesia & Lafarge Malaysia: AFR

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AFR projects: “Use of waste is financially not attractive and would not happen without financial value of CDM credits”

Heidelberg:
- Credits sold to World-Bank
- ~4 $/ton CO₂
- ~8 $/ton AFR

Holcim Group Support    SEP Committee 2005
Heidelberg Indonesia: MIC project

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Credits sold to World-Bank

~4 $/ton CO₂

MIC project: “Use of MIC faces severe market barriers which will be overcome thanks to financial value of CDM credits”

Already 1,5 year UN investigation
Several projects in India (Birla, Gujarat) and China

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Energy and MIC projects still in first phase

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Costs / Benefits - Risks / Opportunities

1. Cost / Benefit:
   - Estimation of future CER trading value: 4 - 8 Euro / ton CO2
   - Expected cost ~ 500,000 $
   - 1 – 2 year administrative process
   - Returns start at earliest one year after project start up
   - Fairly low chance for success,
   - but if successful then relatively high return on investment

2. Reputation ?

3. EU ETS: ~ 500 Mton / year demand for CDM credits

4. Uncertainty of post-2012 legal framework
Present Holcim Position

- Holcim decided not to develop CDM projects based on demonstration of financial additionality

- Holcim is ready to develop CDM projects based on ecological additionality…
Holcim proposal for Innovative Methodology

1. Sectoral Performance Standards, function of e.g.:
   - Region
   - Available natural and anthropogenic resources
   - Market
   - Age of industry
   - ...

2. Each project better than selected Performance Standard is additional; Performance Standard = Business-as-Usual

3. Global cement sector initiative for methodology, data collection and development of Performance Standards

4. Analogy with Allowance Allocation in Emissions Trading System

5. Politically innovative, thus time & lobby effort consuming
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Items for discussion

- What are OpCo’s expectations of CDM and CIE’s support?

- Should Holcim pursue a leading role in developing a cement sector methodology based on benchmarking?