POST SCRIPTUM TO THE BROCHURE : "THE BALI GUIDE ON CDM"

Advice to the reader: if you read the brochure first, you'll understand this post scriptum better.

What happened in Bali

Of course, the evaluations of the outcomes of "Bali" on CDM vary wildly. If we compare the six recommendations for the CDM that we put forward in the brochure "The Bali Guide on CDM" with the outcome, we cannot avoid being disappointed. Concrete improvements were few and were not made on major subjects. Still there were also some positive signs for the future. Below we present what actually happened and share some reflections with you.

The "ugly" projects

What hurts most is that no breakthrough was reached regarding ending the eligibility of HFC23 projects. And also that gas flaring in oil exploitation is still rewarded. These are by far the most criticised CDM activities that costs billions of climate money. The two together cover a large part of total CDM certified emission rights (CERs) of which additionality is highly questionable and have a downward effect on CER prices. Some even consider the CER income from HFC23 as a perverse incentive to start producing more HFC22. Just imagine what could have been done with this money if it would have been invested in renewable energy technologies instead!

The "bad" projects

For the first time the possibility of inclusion of carbon capture and storage (CCS) as CDM project activities were officially considered. As we have expained in the brochure, although CCS doe not yet exist, it could become a real "bad" project. The only agreement was to do further work on this and a work plan for 2008 was established. The plan will include receiving and considering input on technical, legal, policy and financial topics. This will be further considered at the next Conference of Parties in Poznan in 2008. Most parties agree that it can only be a temporary measure. Although hardly any real experience exists, it is assumed that this technology will not be deployed as long as carbon prices remain under 20 € per ton.

"Good" projects and promising developments

On the positive side, **small-scale afforestation and reforestation** rules have improved. It was agreed to double the size limit to 16 ktons of CO_2 per year. Undoubtedly, this important mechanism for small-scale forest conservation will lead to an increase in the number of projects.

Also positive was the decision to include renewable energy technologies that displace non-renewable biomass use. Already in February 2008 this has resulted in the publication of two new biogas methodologies, which brings biogas also at domestic level back into the CDM and probably other technologies as well.

On **Reducing Emissions from Deforestation and Degradation** in developing countries (REDD) significant progress was made. The World Bank has created a Forest Carbon Partnership Facility (FCPF) to promote early action through pilot projects. Some ten countries support the partnership, sufficient to make a start. The Netherlands contributed

15 million Euro. Forest degradation is explicitly included. It is not clear how REDD in the long run will be funded, the text mentions market mechanisms and the creation of a fund. Opinions are called for on monitoring, research on actual storage and incremental effects in forests and for estimations and reference values as well as implications of sub-national approaches and displacements of emissions. Altogether important issues. That indigenous people formally are not included in the negotiations remains worrying. It should be noted that this is the first time serious funding will most likely be committed to forest conservation and sustainable management of forests.

Not directly in the CDM context, but still included in the Bali Action Plan, the **need for "cooperative sectoral approaches and sector-specific actions**" was identified to be considered in reaching a post-2012 climate change agreement. This may eventually lay the basis for the development of different industry-wide agreements aimed at reducing the greenhouse gas emissions of specific industries (for example, aluminium, steel, paper, cement and car manufacturing). Under such agreements, different targets might be set for different sectors. Far away possibly, but this might become something like a sectoral CDM.

The registration and validation fees for **least developed countries** will be waved and they are also exempted of the 2% adaptation fund levy. Some language was included concerning a more equal distribution among developing countries, particularly on promoting the CDM in LDCs, but nothing additional to the Nairobi agreements was proposed. There are some unilateral initiatives to fund support to project development for African Countries and guarantees for investments in CDM projects.

At **institutional level** it can be mentioned that now the Executive Board will have full-time jobs. Attempts will be made to simplify and standardise procedures. Parties called on the EB to improve and simplify the operational aspects of the CDM and improve its transparency, predictability, expedition, cost-effectiveness and efficiency.

It is a disappointment that the interests of a few mastodon countries such as China and the US have had so much influence in the decisions. The Interest in HFC23 (China, India) and CCS (China, US) eligibility are obvious. Hopefully market distortion considerations will eventually help to limit at least the first so that CER supply will not push down CER prices. This would create more demand in the system and then the post-2012 regime potentially would have more projects complying with additionality and more projects with sustainable development benefits.

So, the ugly projects are still there, the bad ones also and new bad ones are coming up. On the good side, there is more support for forests and wood fuel substitution related technologies. Also a bit more efforts to support LDCs and improve processes, as well as prospects for sectoral CDM, although still vague.

All together, what is left in the end are mixed feelings, with a sense of disappointment on the missed chances for improvement.