



Project Newsletter No. 2 – March 2004

IRIS Kyoto's goal is to better define specific risk management and financial needs and to identify areas, based on case studies, where existing private and public financial mechanisms do not meet need them. Recommendations will be made on using public funds to provide risk mitigation and risk guarantees in a cost effective manner in order to better leverage private funds. A team of partners from France, Germany, India, Morocco and the UK is reviewing the risks related to the mobilisation of carbon finance.

Latest Kyoto News

Latest: European Emissions Trading Scheme National Allocation Plans (NAPs)

The European Emissions Trading Scheme is a "Cap and Trade" allowance programme aimed at reducing greenhouse gas emissions in EU Member States. It will cover 25 states and start in 2005. In brief, NAPs will determine the overall reduction efforts for the period 2005-2007 (phase 1) and provide signals about short and long positions at the domestic, sector and installation levels. This is likely to affect the CDM market.

At the time of writing, the UK and Denmark have submitted a draft NAP. Even though the EU carbon market is in its early phase, there are expectations of relatively conservative targets. A link to CDM projects will be established from 2005 (see below).

Supplementarity and the Linking Directive

It now seems likely that conversion of CERs from CDM projects to EU allowance units will be possible from 2005. There are also signals that such conversion may not even be contingent upon Russian ratification of the Kyoto Protocol.

The supplementarity issue is one of the most hotly debated topics in the context of the Linking Directive. This relates to the principle of achieving Kyoto targets principally through domestic policies and measures. Capping the amount of CERs and ERUs, from JI projects that can be converted into EU allowances would be helpful in achieving supplementarity. But even a strict cap would not result in a comprehensive implementation of the supplementarity requirement since states can also use other channels to acquire certificates.

Ensuring supplementarity therefore requires a more comprehensive approach. The NAPs could be made to include a target for the overall extent to which a state intends to use the flexible mechanisms (CDM and JI), as well as a cap on the amount a state is going to convert into allowances. The Commission could be authorised to reject NAPs exceeding the limit.

As "Kyoto risk" would be removed by de-linking conversion of CERs from the entry into force of the Kyoto Protocol, a major increase in private actor activity is expected if the Linking Directive goes through, although the linking developments might not influence substantially on the transacted volume and prices before 2005. By disconnecting the Linking Directive from the Russian ratification process, EU might solve a problem in the short term while increased pressure is being put on Russia.

Morocco approves CDM projects

Morocco has developed a CDM strategy with the support of UNEP and UNDP. The country has approved three CDM projects, and will be forwarding these to the CDM Executive Board shortly. While no contracts have been signed yet, Morocco appears keen to take part in the CDM market. The three approved projects total some 4.1 million tonnes of CO₂ equivalents (MtCO₂e) of emissions reductions.

The first is a landfill gas to energy project, developed by the City Council of Rabat. The second is a heat recovery enhancement project for power generation with the Office Chérifien des Phosphates while the third project, a 60 MW wind park, has been developed by the Office National d'Electricité. This wind park is expected to provide emissions reductions of 1.62 MtCO₂e over 10 years.



IRIS KYOTO

Innovative Risk Coverage and Financing of Projects related to the implementation of the CDM focussing on India and Morocco



IRIS Kyoto Project Update

The IRIS project is now entering its 10th month of activity. A methodology paper was published by IRIS Kyoto in December 2003 concerning issues and risks related to the inclusion of transport sector projects to the CDM. This can be downloaded from the IRIS project web site.

Many municipalities in developing countries around the world are faced with similar problems in the transport sector, namely air pollution and congestion. Actions to solve these problems are required, but it remains uncertain how the CDM can be integrated into mass transit and other transportation infrastructure projects.

Paris Event – Risk Identification

The project held a session in Paris on the **27th January 2004** during which a selection of Moroccan and Indian projects were discussed. *The project website presents these projects.* Projekt Consult GmbH presented on German Climate Change related activities. A number of guests from the French government participated in the final discussions, reporting that:

- France still plans to meet its emission reduction targets via domestic measures, although CDM is being monitored. On this point the EU Linking Directive will clarify the position for all members.
- CDC IXIS has designed a private carbon fund without the support of the French government.

Half the 50m Euros planned will be from German sources. Strict eligibility criteria will be used to minimise transaction costs.

- The credit insurance and credit management service providers COFACE will cover expropriation and political risks on CDM French projects.

Brussels Event – Risk Mitigation

A meeting is also planned to be held on the **19th April 2004** in Brussels. This event will focus on the following objectives:

- To clearly understand the main bottlenecks to CDM project closure, and collect a set of suggestions from the audience regarding risk management instruments for Renewable Energy, Energy Efficiency projects from the Moroccan and Indian project portfolio;
- Identification of means to encourage the financing of clean technologies;
- Capacity building and exchange of information;
- To provide information on current trends in carbon finance including the emerging relationship between the CDM and the European Emissions Trading Scheme (see page 1 of this Newsletter).

Upcoming Activities and Further Information

The IRIS Kyoto Project will continue working until the end of 2004, developing risk mitigation instruments for CDM projects in Morocco and India. The project web site <http://www.iris-kyoto.com/> is being regularly updated with new information and links to other relevant media. Further activities will be posted on the "News" section of this site. In the first instance, contact project leader IED or country partners CIEDE and 3EC should you require further information on project activities.

Project Partners

