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plan bleu

Plan Bleu's activities in 2006-2007 concerning the follow up to the chapter on « Energy and Climate change » of the *Mediterranean Strategy for Sustainable Development*

UMET

Sub-regional workshop:

CDM in the southern Mediterranean countries: strengths and weaknesses, challenges and prospects - links with the EE & ER projects

Summary report

Workshop organised by Plan Bleu and UMET under the aegis of the Mediterranean Commission on Sustainable Development, with the support of: ADEME, CEA, OME and IMET

5th May 2006
9, Avenue Malesherbes, Paris 75008 (Synagir) – France
9 00 AM – 7 00 PM

INTRODUCTION

In the framework of Plan Bleu's 2006-2007 mandate to follow up the chapter on « Energy and Climate Change » of the Mediterranean Strategy for Sustainable Development (MSSD)[1] and of UMET's activities for the consideration of the matter, Plan Bleu and UMET, under the aegis of the Mediterranean Commission on Sustainable Development, organised a joint regional workshop on the Clean Development Mechanism (CDM) in the southern Mediterranean countries. This workshop was held in Paris on 5th May 2006.

This summary synthesises the main observations and reflections developed by the participants in the workshop. It was drawn up by the members of Plan Bleu's technical pilot committee on « Energy and Climate Change » who were present at the workshop[2] on the basis of the in-depth minutes of this workshop.

The main reasons for the scheduling of this workshop were the complexity of the topic, the opacity of the procedures and of the language, the fact that the southern Mediterranean countries are relatively late in this area compared to other countries and regions of the world, as well as the need to exchange regional experiences.

The workshop brought together about thirty experts and specialists in the matter and several institutions participated: ADEME (French Agency for Environment and Energy Management), CEA (French Atomic Energy "Commissariat"), OME (Mediterranean Energy Observatory), IMET (Italian Ministry of the Environment), IEPF (French-speaking nations Institute for Energy and the Environment), CDER (Moroccan Centre for the Development of Renewable Energy), ANME (Tunisian National Agency for Energy Management), CIEDE (Tunisian Information Cell for Sustainable Development and the Environment), CDC (French deposits and consignations fund), OECC (Spanish office on climate change) – Spanish Ministry of the Environment), ICF (Italian Carbon Fund – Italian Ministry of the Environment), Monaco International Cooperation Office, AFD (French development agency), UNEP-TIED (United Nations Environment Programme – Technology, Industry and Economy Division), World Bank, MIES (French inter-ministry mission for greenhouse gases) and CP-RAC (Action Plan for the Mediterranean (Barcelona) Regional Activity Centre for Cleaner Production).

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[1] To do so, Plan Bleu works in close cooperation with Mediterranean networks specialized in energy :OME and MEDENER; The MEDREP Program, UMET, the Mediterranean Institute/FEMISE and PP/RAC Barcelona have also pledged their contributions; The NGO Hellio international is associated. Financial support for the implementation of activities is provided to Plan Bleu by ADEME. The full programme of activities is available at: http://www.planbleu.org/themes/energie_progr_travail2006_07.html. The full text of the MSSD is available at: http://www.planbleu.org/publications/smdd.pdf .

[2] In alphabetical order: Samir ALLAL: Plan Bleu consultant, senior lecturer at Versailles University (C3ED/IRD) samir.allal@wanadoo.fr. Houda BEN JANNET-ALLAL, Scientific manager for renewable energies and sustainable development, OME (Mediterranean energy observatory), allal@ome.org. Anne GED: UMET, associate senior lecturer Paul Cézanne University, Institute of Public Management, a.ged@synagir.com. Stéphane QUEFELEC: Plan Bleu, economist – programme officer in charge of « energy and climate change » activities, squefelec@planbleu.com. Stéphane POUFFARY: ADEME – Head of international expertise cell for energy management – Renewable energy, Energy Networks and Markets Division – ADEME stephane.pouffary@ademe.fr.

SUMMARY

The purpose of this workshop was to assess the CDM situation in the region, to share experiences and, with the stakeholders and specialists concerned, to apprehend the questions of the operational implementing of CDM projects (EnR and URE especially) and to learn lessons from this so as to enable the region to benefit as much as possible from this mechanism. This synthesis includes the main ideas discussed during the workshop:

1. **CDM was included in the Kyoto protocol with the aim of helping the parties mentioned in Appendix I to fulfil their commitments while promoting the sustainable development of the non-Appendix I parties.** It is based on private investment in projects to reduce greenhouse gases (GHG) in developing countries. One of the advantages of CDM for the latter is to have the CER (Certified Emission Reductions) costs borne by the Appendix I countries.
2. **Observation of current CDM trends demonstrates that investors are generally attracted, as is the case for all types of investment, by high returns on investment and, therefore, in competitive prices, low financial risk and few commercial barriers.** In this way, competition is developing among the countries to welcome these projects. Purchasers tend to invest when risks are low and profit prospects high, often in the few countries where direct private foreign investment is already concentrated. Consequently, CDM projects are practically all oriented to a limited number of countries, mainly India, Brazil and China. Africa and, to a very little extent, the Mediterranean benefit less. Currently, 172 projects have been filed. There has, however, been sharp acceleration (63 projects) since the Montreal Conference. In May 2006, 744 new projects are in the pipeline (representing 341 Mt CO_2 avoided).
3. **The main achievement since the Montreal Conference is the setting up of CDM technical management tools, with a higher budget allocated to file investigation and the recruitment of a number of collaborators.** The constraints associated with the slow processing of the files are at present being lifted. Now the problem is the offer of high quality projects. The benchmark organisation «*point carbon* » has identified a set of 3000 JI (Joint Implementation) and CDM projects, 2700 of which are in the constitution phase. But in terms of tonnes of CO_2 avoided, the volumes are still marginal: around 5 million tonnes per annum, i.e. 340 million tonnes by 2012. Nevertheless these amounts should increase as the project offer gets underway.
4. **Analysis of the market structure shows a difference depending on whether the number of projects or their CO_2 equivalent is considered**. Indeed, only a small number of projects avoids a considerable number of tonnes of CO_2. Similarities with the SO_2 market that has functioned in the USA for several years can be noticed. This market has a limited number of projects representing a very high volume of CER. The market does not depend so much on the number of projects but rather on the volume of CER per project. This being the case, once the larger projects have been carried out, the market will probably go in the direction of smaller projects.
5. **Examination of the geographical division of CDM demonstrates that India and China count for half of the projects.** Four countries – India, South Korea, China and Brazil – represent 90% of the CER (1/3 of which are for China) concentrated on two greenhouse gases (N_2O and HFC), more than ¾ of the reduced volumes. Seven projects are currently underway: 2 in South Korea, 2 in Brazil, 2 in China, 1 in India. In the Mediterranean 3 CDM projects have been registred in Morocco (2 for wind energy and 1 for solar energy) with 223 000 CER / annum on average and 1 371 000 CER expected by 2012. Four CDM projects are in the validation stage (1 in Morocco, 2 in Tunisia and 1 in Egypt).

6. **At the present time, analysis of the nature of the current CDM projects indicates that they do not concern either the rational use of energy or renewable energy, but rather industrial gas.** The low cost of carbon per tonne is to blame. Land-fill sites and agriculture represent a large part too. Thus, projects concerned with renewable energy only develop if the price per tonne of carbon increases. « Renewable energy » projects also have the disadvantage of their small size as well as the fact that transaction costs for these projects are relatively high compared with the same cost for larger projects. A solution to this problem was discussed by the participants: project grouping would seem to be the answer.
7. **The evolution in the price per tonne of CO_2 is also a factor of incertitude, accentuated in recent weeks by fluctuations on the European market.** The price per tonne of CO_2 has recently been hard hit. At the end of April, several countries including France and Spain announced the quantities of CO_2 emitted last year: they were lower than expected. This means that there is a surplus of quotas on the market, giving rise to a drop in the price (price divided by 3 in 5 market days between end April and the beginning of May 2006). The design of the European market that offers a short term view (3 years) is called into question. CDM demand was built on the concept of a link between the price of CDM/JI CER and the price of CO_2 in Europe. Indeed, at the approach of 2012, the European market seemed to be the largest supplied in terms of purchases and the most profitable one too. Some contracts were higher than 15 euros a tonne because of this. Recent events have demonstrated that there will be less need for CER than anticipated for European industrialists by 2008. The market is, therefore, called into question and the recent correction alters the conditions in which CDM projects will develop.
8. **On the world market, and since the Montreal Conference, important changes of a varied nature in the purchasers' behaviour have been noticed.** Japan has become a big purchaser, although it is not known whether it is the state or the industrialists who are buying. In Canada the new government does not seem to be going in the direction of strengthening of the Kyoto institutional system and there are risks of a reversal of Canada's position on the application of the protocol. On the other hand, the United States is making progress with several local projects emerging - such as *Climate Exchange*. Industrialists anticipate a carbon problem, including when buying CERs. The real deadline remains the presidential elections in 2008.
9. **In this new context, the participants emphasised the importance of regional sharing of competence for the designing of projects.** For instance, India has set up a specific *task force for* « project production ». However, in Africa and in the Mediterranean countries, each CDM project is designed case by case, without capitalising experience. It would seem, therefore, that those who present the projects are not sufficiently aware of the negotiation processes or of the practical difficulties to be surpassed in order to carry out their projects in optimum conditions. Things are getting better, however: Tunisia has recently created a specific *task force* to identify CDM projects; In several southern Mediterranean countries, NDAs have been set up or are being set up (Tunisia, Morocco, Algeria, and so on); Morocco has filed several projects. But the learning process takes several years and it still has far to go.
10. **In the future, CDM will play a more and more important role, so the years of negotiation to come should be used to design the teams and to manage the channels through which projects can be built.** Now, the difficulties that the developing countries face when launching their projects should no longer be allowed to lead to failure or to refusal to act. The Mediterranean countries have become aware that without a learning process, they risk being excluded from the

CDM market. The question of CO_2 is in any case more and more present in development projects and projects that do not take this into account risk being excluded from official development aid (ODA). Other questions still have not been solved to develop CDM projects: the definition of "additionality" which is still a problem, the processes and procedures made too technocratic thus leading to exclusion and representing a real cutting off from civil society, as well as the temptation of the industrialists to hunt for big projects at little cost.

11. **Even if, from the point of view of the developing nations, CDM is disappointing at present given the number of projects that emerge, the stakes now concern the preparation of post-Kyoto. A meeting will be held in Paris in September.** Discussions will focus on what could be a good post-Kyoto negotiating position for the developing countries and especially for Africa and the Mediterranean region. The question of positive discrimination for small projects was raised. Besides this, and for the post-Kyoto negotiation, the possibility for the developing countries to have commitments to limited GHG emissions without constraints and without the risk of loss will be discussed. Target objectives could be proposed to these countries. If the commitments were not respected, there would not be penalties. On the other hand, the countries that did better than their commitment could sell their surplus yield.

12. **One of the difficulties for implementing lies in the different approaches of the countries of the North and those of the South concerning CDM:** for the North, CDM is an environmental issue; for the South CDM is a tool to solve development issue. Whether the logic is a development one or an environmental one, sometimes they can be contradictory. Besides this, in the South, CDM projects are generally studied or managed by environmental specialists, not by development ones. This is the reason for the difficulties in implementing CDM projects and in the mutual understanding of the various parties involved in the projects.

13. **CDM cannot be a substitution for the countries' public policies. CDM participates in these policies and has to develop with them coherently.** In the less developed countries, the personnel, isolated in the ministries of the environment, often find it difficult to activate private finance sector and industry; the removal of these partitions is very hard to carry out. It would be better for the countries to identify priority sectors, to gather together people concerned around a table to develop a coherent set of projects. To facilitate this, official development aid should be concentrated on the capacity to implement rather than on the projects themselves.

14. **CDM should find a place with regard to Official Development Aid (ODA).** ODA should be considered as a starter that is only useful if private investment takes the relay. About 90% of the 110 billion dollars of direct investment abroad is concentrated in ten non-Mediterranean countries. Obviously, the same tendency can be noticed for CDM projects. On the other hand, for installations and facilities ODA is focused more on other countries, notably Mediterranean ones. Even if ODA is low compared to direct investment abroad, it remains an important source for the financing of infrastructure. When the financing of these facilities calls on a public-private partnership, as in the area of water, CDM should be able to find its place even though this is not the case at present. In the case of water installations, it is easy to have drinking water paid for but it is much more difficult to finance waste water collection and treatment. The social chapter on CDM could find its place in such a case.

15. **Several participants pleaded for the development of sectional policies and for sets of associated projects that would be useful for the country's development and that could be eligible for CDM,** in the construction and transport sector, for instance, that offers great potential in the Mediterranean

region. The World Bank promotes these targeted sectional approaches. Currently, the developing countries' main investments are concentrated on infrastructure and construction, but there are no CDM projects in these sectors. The consequence is a gap between the sectors requiring a lot of investment and the sectors on which CDM projects are focused. The challenge for countries is to prepare sectoral policies so as to re-orient CDM investments toward sectors that really need investment for development. The banking sector of the countries of the South should be able to help if it is more involved.

16. **In an analysis of the existing projects,** the participants also emphasised the important risk of seeing CDM projects develop that will not have impact on sustainable development. The designated national authorities (DNA) have a crucial role to play in this matter. CDM projects are also complex financial projects. Within the financial package, the question of the rent formation, its division among the stakeholders and of the countries' ability to negotiate should be asked. The idea of positive discrimination remains to be explored.

17. **The key factor for the success of CDM is participation by the private sector.** It is a market mechanism and as such cannot work with only one player. The fact that the local economic sector has not appropriated CDM limits its use. In Tunisia the energy efficiency projects have not convinced the banks. The main reason is that the latter are not familiar with the sector. On the other hand, if they become interested and acquire competence in this field, they will no doubt become serious CDM partners. Thus, the future depends on the appropriation of CDM by local partners.

18. **Despite mitigated observation about CDM, it should be noted that transition is underway,** and this should be accelerated and accompanied. The first type of transition is technological and should, with the increase in market size, permit real economies of scale for the projects. The second type of transition is geographical: Investors first focus on the large attractive countries such as China, India and Brazil, and only afterwards on countries such as Morocco, Tunisia, Egypt, and so on. Investors are much more reluctant concerning the sub-Saharan countries. The third type is institutional and involves a lot of uncertainty: What will the post-Bush policy be? And Canada's, etc.? Finally, the fourth type of transition concerns markets: indeed, it will be necessary to pass from independent markets to an integrated global market.

19. **For the moment, CDM does not seem to be a solution to the Mediterranean countries' development needs. Yet, with all this transition underway, the participants are in agreement about the fact that the attractiveness of the Mediterranean countries for CDM projects could increase.** The question that arises is: why is it so difficult to have a real regional policy concerning CDM while the logical way to work is in this direction? The question of creating a Mediterranean carbon fund and of the ways it would work and be supplemented is again being asked. A joining of forces and working together could lead to the minimising of transaction costs, more projects and better appropriation of CDM by the countries concerned. At the Mediterranean Region level, the question of CDM should also be linked to the energy debate, the depletion of non-renewable resources, the post-Kyoto debate and the priority development projects in the region. The examination of priority areas for the development of the south and east Mediterranean and the objectives of reducing greenhouse gases demonstrate that there is a strong synergy between these factors. CDM, but not alone, can play a role and offer opportunities for action to all the stakeholders.

20. **Things evolve quickly and it is essential for the Mediterranean countries which are potential CDM host to prepare (and/or accelerate their preparation- see point 9) as of now so as to be present later, after the ten years or so of maturity that are necessary.** The stakeholders in the countries

should be in a position to appropriate these projects, build a sectoral and programmatic cluster approach, integrating objectives and projects that include energy efficiency and renewable energy.

21. **Among the Appendix 1 Mediterranean countries, Spain, Italy and Monaco are already active, or would like to be, in the development of CDM projects.** These countries participate or have created financial instruments (carbon funds, participation, and so on) and are developing specific administrative and institutional competence. Spain wishes to focus its CDM investments in Latin America and North Africa (it has signed an agreement with Morocco). One of the sectors focused on is energy efficiency. Italy focuses its interest on the Mediterranean and the Balkans. The World Bank is also an important CDM stakeholder in the MENA (Middle East and North Africa) region. The AFD worked in close collaboration with the World Bank in this field and has increased its expertise. A recent FFEM financing support has recently allowed AFD and the WB to elaborate a cooperation program to help African countries in elaborating CDM project. Northern African countries are included in this program which should start soon.

22. **In conclusion:** the workshop highlighted the current limits of CDM as a financial instrument for the projects (renewable energy, energy efficiency, projects for infrastructure and equipment that use little carbon) in the Mediterranean region. It emphasised the need to articulate all of the financing mechanisms likely to contribute to « cleaner development » in the Mediterranean, going far beyond the framework of the market mechanisms that CDM represents as it stands today. The participants insisted on the necessity to reflect about the respective but complementary roles of official development aid and of available funds in the framework of other international conventions concerning the environment, in banks and international, regional and national financial institutions, with the objective of working out a coherent, transparent and well-balanced system to finance cleaner development of the Mediterranean region.