



## Suppressed energy demand projects in the CDM

Presented by GLOBE Europe in collaboration with GLOBE Southern Africa and SouthSouthNorth

Steve Thorne, SouthSouthNorth, discussed how inclusion of suppressed energy demand in CDM project baselines could better enable less developed countries to benefit from the CDM. He explained that suppressed demand for energy occurs when energy services go unfulfilled due to poverty or a lack of energy infrastructure. He recalled that baselines are estimates of what would have happened without the CDM project and are thus important for assessing the additionality of the project and calculating the certified emissions reductions (CERs) generated. He noted a provision in the Bonn Agreements which allows for baselines to account for future emissions above current levels due to specific host country circumstances. He suggested that this provision could allow for baselines to include "avoided emissions" caused by energy poverty or suppressed demand.

Thorne noted that the market for CDM projects tends to follow foreign direct investment and therefore benefits only a small number of more developed developing countries. Allowing the inclusion of suppressed demand in baselines would serve to level the playing field and provide an advantage to underserved areas, therefore enabling a wider range of countries, particularly least developed countries (LDCs), to attract CDM projects. As a result, CDM projects could better contribute to sustainable development. He noted difficulties with quantifying suppressed demand and incorporating it into the baseline, including determining how far into the future the baseline should be set and at what level an energy service is considered fulfilled.

Axel Michaelowa, Hamburg Institute of International Economics, outlined the social implications of accepting suppressed demand in CDM baselines. He stated that with low certified emissions reductions (CER) prices, investors will only be interested in larger CDM projects with low transaction costs, typically in countries with more efficient institutions and infrastructure in place. He explained that suppressed demand projects create direct social benefits by generating income that allows poorer groups to purchase goods and services, such as consumption goods, grid-connected energy, and transportation services.

Michaelowa outlined three types of suppressed demand projects, including those that provide energy services, such as renewable energy, low-carbon fuels or efficient transmission; consumption goods, such as efficient appliances, low-emission waste management or efficient production processes; and transport, such as efficient vehicles or infrastructure. He highlighted the social benefits of these types of projects, and emphasized that small-scale projects can be better targeted to benefit lower income groups and tend to generate co-benefits locally.



Steve Thorne, SouthSouthNorth, describes how the inclusion of suppressed energy demand in CDM project baselines can foster sustainable development in less developed countries.

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# The carbon market: Status and future prospects

Presented by Union of Industrial and Employers' Confederations of Europe (UNICE)



Corinne Boone, CO2e.com, underscores the importance of developing emissions trading policies in light of the fact that uncertainty surrounding domestic and international policy keeps carbon prices low.

#### More information:

<http://www.co2e.com/images/AlbertaSimulationOverviewNov2001.pdf>  
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Corinne Boone, CO2e.com, provided an overview of the Alberta greenhouse gas (GHG) emissions trading simulation, which involved over 100 representatives from industry, government and research institutions. The simulation modeled a cap-and-trade system and a rate-based system, and was divided into four trading rounds to assess the carbon market under voluntary agreements and Canadian, NAFTA, and international trading schemes. The cement, chemical, oil and gas, pipeline, and electric utility sectors represented "buyers." Suppliers and buyers were provided with internal abatement cost curves, emission allowance allocations, and initial and ongoing cash allocations as a basis for decision making. Instruments traded included emissions allowances, Canadian and American joint implementation (JI) credits, and CDM credits.

Boone said the simulation revealed that: trading activity was highest in the second round of trading; emission allowance allocations were the most traded instrument due to low associated risk; cost curves varied significantly for different sectors; compliance shortfall was highest for the oil and gas sector; the electric utility and oil and gas sectors were net buyers; and the cement and chemical sectors were net sellers. She concluded that the simulation demonstrated how directly policy decisions impact market behavior.

Atle Christiansen and Kristian Tangen, PointCarbon, examined factors influencing the estimation of carbon price. They stated that the price of carbon will largely depend on whether the US re-enters the Kyoto Protocol process, which is unlikely to occur in time for the first commitment period. Additional factors affecting the price of carbon include the amount of carbon to be banked, the extent of banking, the impact of the second commitment period, and price manipulation by cartels or dominant sellers. Christiansen and Tangen concluded that carbon prices would only collapse in the unlikely events that: Russia and the Ukraine did not meet the eligibility requirements for carbon trading; there were no second commitment period; or prices were manipulated. In the absence of these factors, the price per tonne of CO<sub>2</sub> equivalent would approach US\$11.

## Worldwide gas flaring reduction initiative

Presented by the Norwegian delegation in collaboration with the World Bank

Børge Brende, Norwegian Minister of the Environment, launched the gas flaring reduction initiative, jointly funded by the Norwegian Government and the World Bank. He emphasized that energy is an important factor in economic development, and highlighted the numerous links between poverty, climate change and gas flaring. He noted that the oil industry is increasingly concerned about flaring as it negatively affects its reputation. He concluded that gas flaring reduction requires collective action by all stakeholders.

Rashad Kaldany, International Finance Corporation (IFC), described the causes of gas flaring, including inadequate contractual arrangements in the petroleum industry, lack of gas markets, inefficient gas use, and lack of economic incentives for gas flaring reduction. He noted that the impacts of gas flaring on climate change are poorly understood.

Kaldany explained that the joint Norwegian-World Bank initiative will: convene consultations and conferences; improve and disseminate knowledge; introduce improved contractual and regulatory frameworks; and devise best regulatory practices. It aims to design financing mechanisms to reduce gas flaring and identify pilot projects for flaring reduction in developing countries and economies in transition. The initiative's challenges include the need to find additional investment and financing, provide fuel choice flexibility, and consider the social impacts of energy price reforms.

**Discussion:** Participants highlighted the difficulty of reducing gas flaring in light of high oil prices, and discussed novel mechanisms for reducing flare and saving gas. One participant noted that oil companies should only be allowed to open new oil fields when they adequately address the issue of gas flare reduction.



Rashad Kaldany, IFC, says that reducing gas flaring will directly alleviate poverty.

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# Come hell or highwater: Mainstreaming adaptation in World Bank operations

Presented by the World Bank

Ajay Mathur, World Bank, highlighted the World Bank's efforts to integrate climate change adaptation into its activities. He noted that the Bank supports mitigation activities through policy reform, and promotion of energy efficiency and cost-effective renewable energy technologies. The Bank also supports adaptation through projects that promote technologies, practices and policies to reduce vulnerability in the water, agriculture, forestry and health sectors, and builds capacity to identify cost-effective mitigation and adaptation strategies.

Saleemul Huq, International Institute for Environment and Development (IIED), described work to integrate adaptation concerns into development in Bangladesh. He noted that Bangladesh will face increased drought and vulnerability to flooding and cyclones as a result of climate change, and highlighted successful projects to develop disaster preparedness, implement early warning systems, and install multi-purpose cyclone shelters. He explained that adaptation measures are developed for Bangladesh's most vulnerable sectors by analyzing vulnerability, identifying sectoral stakeholders, engaging in dialogue, identifying adaptation options, and incorporating these options into sectoral planning.

Wayne King, representing Pacific Island States, described the GEF-funded Pacific Islands Climate Change Assistance Programme, which developed national implementation strategies and policies for vulnerability and adaptation by sector. He highlighted a Regional Framework for Action on Climate, supported by a programmatic approach, which guides policy and aims to coordinate various climate-related initiatives and collaboration among all stakeholders.

Rawleston Moore, Caribbean Planning for Adaptation to Climate Change (CPACC), outlined the impacts of climate change on the Caribbean, including decreased rainfall, coral bleaching, increased tropical storms, sea-level rise, and impacts on agriculture and coastal zone development. He highlighted CPACC's achievements, including: establishing a sea-level and climate monitoring system; establishing coral reef monitoring protocols; conducting initial coastal vulnerability assessments; building capacity; developing a coastal resources information system; and compiling initial adaptation policies.

Alan Miller, GEF, described GEF financing for adaptation. He explained that GEF support was initially limited to support of Stage I activities (vulnerability assessments) in the context of national communications, but is now entering a crucial period of changing guidance, which could result in GEF support for reviews of climate change impacts and potential adaptation. He noted that 40 percent of GEF funding, over US\$1 billion, has gone to climate change projects, mostly for GHG mitigation.



Saleemul Huq, IIED, likens adaptation to insurance - a relatively inexpensive investment in the present that will be disproportionately more valuable in the future.

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# Reducing vulnerability and strengthening adaptive capacity: Strategies for integrating UNFCCC and UNCCD interventions

Presented by UNDP



Philip Dobie, UNDP, states that national action plans prepared by countries affected by desertification could be used as the basis for adaptation plans.

Saleemul Huq, IIED, explained that climate change has important equity implications that overlap with desertification and biodiversity. He noted that those most vulnerable to desertification are also vulnerable to climate change, and require assistance to adapt. He stressed the importance of ensuring that CDM projects promote sustainable development for more than just a few developing countries.

Richard Klein, Potsdam Institute for Climate Impact Research, outlined the results of a recent workshop on "Enhancing the Capacity of Developing Countries to Adapt to Climate Change." The workshop's objectives were to establish an effective and cross-cutting dialogue between relevant actors involved in adaptation to climate change in developing countries, and to develop an agenda for research on how to enhance developing countries' capacity to adapt to climate change. He noted that participants from donor countries highlighted adaptation to climate change in developing countries as a priority for bilateral and multilateral assistance, whereas participants from developing countries said that adaptation to climate change is not a priority due to more immediate concerns such as water and food scarcity, education and public health.

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# Sweden's climate policy, Local Investment Programmes, and greenhouse gas reduction

Presented by the Swedish delegation

Minister Kjell Larsson, Swedish Minister of Environment, announced that next week the Swedish Government will present a bill to Parliament to ratify the Kyoto Protocol. The bill will also recommend that Sweden adopt a GHG emissions target of four percent below 1990 levels by the first commitment period, even though its Kyoto Protocol target within the EU bubble permits it to increase emissions by four percent. He said Sweden's current GHG emissions would be approximately 14 percent higher had it not implemented a CO<sub>2</sub> tax in 1990.

Olle Oskarsson, Swedish Ministry of the Environment, described the Swedish Government's Local Investment Programmes, an initiative that provides funding for local-level sustainable development projects. The programme's objectives are to prioritize ecological sustainability at the local level, increase public awareness, support implementation of Agenda 21 plans, stimulate cooperation between participants, and generate employment.

Kristina Feldhusen, Swedish Ministry of the Environment, noted that climate change projects undertaken through the Local Investment Programmes include transportation and energy projects. She emphasized that sustainable development requires not only technological solutions, but also a change in thinking and planning.

Hanna Roberts, Western Harbour Housing Project, described a housing district located in Malmö, Sweden, which promotes ecological sustainability by, *inter alia*, meeting 100 percent of its energy needs through locally produced wind and solar energy. She highlighted the Project's "Quality Programme," which focuses on reducing energy consumption in the housing district through, *inter alia*, the installation of energy efficient appliances and lighting.

Sarah Nilsson, City of Växjö, outlined the "Fossil Fuel Free Växjö" programme. She highlighted that Växjö achieved emissions reductions of 18 percent below 1993 levels by 1999, largely through the substitution of biomass for oil in district heating, and aims to reduce emissions by 50 percent by 2010.



Hanna Roberts, Western Harbour Housing Project, explains that the Project aims to address transportation, biodiversity, energy and land reclamation in an ecologically sustainable manner.

#### More information:

<http://www.ieh.se/eng>

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## Reducing vulnerability and strengthening adaptive capacity: Strategies for integrating UNFCCC and UNCCD interventions

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Philip Dobie, UNDP Drylands Development Centre, noted that drylands peoples are capable and adaptable, but they are marginalized geographically and politically, are dependent on the exploitation of natural resources, and are vulnerable to desertification and impacts of climate change. He highlighted the need to integrate drylands policies into mainstream policy, build adaptation and vulnerability into macroeconomic policy, and strengthen governance and institutions, particularly at the local level.

John Virdin, World Resources Institute, noted that drylands communities have practiced adaptation measures for centuries, but due to their increasing vulnerability to desertification and climate change, there is increasing urgency for policies and measures that enable win-win activities to both combat desertification and assist adaptation to climate change. He highlighted the need to coordinate efforts between the UNFCCC and the Convention to Combat Desertification, strengthen institutions for collaborative management with communities, and provide drought mitigation and prevention programmes.