

Dr. Christoph Sutter, CEO, South Pole Carbon Asset Management

## Clearer post 2012 rules are needed in the EU-ETS to foster those CDM projects that are truly additional and contribute to sustainable development

*Briefing paper on the Commission's proposal to revise the EU Emissions Trading Scheme; Workshop at the EU Parliament, 3 June 2008.*

Given the global challenge of climate change we welcome the increased efforts towards domestic greenhouse gas emission reductions in industrial countries and towards a robust international climate regime after 2012, which can be seen in the Commission's proposal for Directive 2003/87/EC.<sup>1</sup> We especially support the proposal to emphasise projects that either are located in Least Developed Countries (LDCs) or that especially promote sustainable development.<sup>2</sup> Such provisions might help to overcome some of the shortcomings of the current CDM.

However, to ensure an effective fostering of CDM projects in LDCs and highly sustainable projects:

- i) rules for developers of truly additional projects need to be predictable;
- ii) volumes of LDC/highly sustainable emission reductions that are allowed in the EU-ETS have to be significantly increased.

**i) Rules for developers of truly additional projects need to be predictable.** One of the clear successes of the Kyoto Protocol is that a fully fledged CDM sector (incl. project developers, technology providers, carbon finance institutions, etc.) has been built up in record time. This new CDM sector now has to handle the uncertainties regarding the international post-2012 regime.

The EU – as a leader in the global climate change process – is expected to lead the way in establishing clear incentives for high priority projects. Truly additional and sustainable projects need the CDM to be feasible and typically have long lead times. They can only happen if the rules are clearly predictable. For rules relating to projects in LDCs/with high contribution to sustainable development we strongly recommend deleting volume restrictions which are subject to a satisfying global reduction target.

**ii) Volumes of LDC/highly sustainable emission reductions that are allowed in the EU-ETS have to be significantly increased.** The Kyoto Protocol clearly defines the objective of the CDM to contribute to sustainable development of the host country. However, various analyses of the current CDM show that there are clear differences between CDM projects with regard to their contribution to sustainable development.<sup>3</sup>

To create a significant and effective incentive for LDC/highly sustainable emission reductions, the volumes allowed in the EU-ETS have to be higher than currently proposed by the Commission. For the period post 2012 we suggest allowing volumes in the similar range as for the period 2008-2012 (approximately 50% of total emission reductions could come from third countries). However, in the post 2012 scheme we suggest to restrict these volume to emission reductions resulting from LDC/highly sustainable projects. This would set the right incentives to overcome the current shortcomings of the CDM.

### **About South Pole Carbon Asset Management**

South Pole is a carbon asset management company with outstanding technical expertise and a reputation for developing innovative and cost-effective emission reduction projects. The company has globally more than 100 CDM projects under contract. It was the first company worldwide that generated issued CERs with the Gold Standard quality label and concluded the first ever international CER transaction.

### **About Christoph Sutter**

Dr. Christoph Sutter is the CEO of South Pole Carbon Asset Management. He has been member of the Methodology Panel of the CDM Executive Board since 2005.

Before joining South Pole Ltd. Christoph was a consultant with McKinsey & Company and a CDM project developer with several small companies. During the last 10 years, he advised successfully registered CDM projects with a forecasted total of more than 100 million t CO<sub>2</sub>e.

Christoph holds a Ph.D. from the Swiss Federal Institute of Technology, Zurich. He wrote his Ph.D. thesis on sustainability of CDM projects.

---

<sup>1</sup> Commission of the European Communities (23.1.2008): Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2003/87/EC, p. 10.

<sup>2</sup> Commission of the European Communities (23.1.2008): Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2003/87/EC, Article 11a

<sup>3</sup> Sutter, C.; Parreno, J.C., 2007. Does the current clean development mechanism (CDM) deliver its sustainable development claim? An analysis of officially registered CDM projects. *Climate Change* 84 (1), 75-90. and Olsen, K. H., Fenhann, J., 2008. Sustainable development benefits of clean development mechanism projects. A new methodology for sustainability assessment based on text analysis of the project design documents submitted for validation. *Energy Policy* (in press).