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Events convened on Friday, 25 October 2002

Market-based mechanisms for GHG mitigation: Issues and concerns

Presented by Development Alternatives



Axel Michaelowa says that small-scale CDM projects may be unattractive to investors.

Kalipada Chatterjee and Vivek Kumar, Development Alternatives, reviewed small-scale clean development mechanism (CDM) projects, emphasizing their potential to increase employment, assist local capacity building, improve economic standards and stimulate sustainable development. They stressed the need for host country institutional development and highlighted the benefits of unilateral CDM, the bundling of projects, and the CDM's small-scale project provisions in reducing transaction costs throughout the CDM project cycle.

Axel Michaelowa, Hamburg Institute of International Economics, reviewed the commercial attractiveness of small-scale projects by examining the projected status of the CER market, CDM transaction cost estimates, and the impact of the CDM rules in promoting small-scale projects. He said these projects may be commercially unattractive. He explained that the value of credits will be low, that transaction costs will rise exponentially with decreasing project size, and that rules regarding baseline determination and bundling require further standardization.

Jayant Sathaye, University of California - Berkeley, discussed multi-project baselines as an approach for standardizing project greenhouse gas (GHG) estimation. He reviewed the steps required for determining additionality and estimating baseline emissions, outlined the transaction costs that may be incurred by engaging in CDM projects, and explained the decision framework for setting and selecting a multi-project baseline.

Randall Spalding-Fecher, Energy and Development Research Centre (EDRC), discussed the potential of the CDM to contribute to sustainable development, highlighting the need for effective host country rules and strategies, monitoring, and encouragement of small and medium-scale projects. He advocated the use of a threshold approach for setting sustainable development indicators and stressed the need for host country capacity building to achieve sustainable development objectives.

Joyashree Roy, Jadavpur University, discussed behavioral response parameters for developing countries involved in the CDM, emphasizing the need to pay attention to country specificities when creating CDM projects. She stressed the need to consider the "rebound effects" of unaccounted emissions and local welfare losses incurred by projects.

Discussion: Participants discussed: whether the "rebound effect" should be considered in a project's baseline (and the sustainable development implications); the need for a fund to cover transaction costs; involvement of NGOs and others in project screening; requiring a portion of each CDM portfolio to include small-scale projects to promote the equitable distribution of projects; and the need to make sustainable development the main priority of the CDM.

More information:

<http://www.devalt.org>
<http://www.hwua.de/climate.htm>
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Poverty and climate change: Reducing the vulnerability of the poor

Presented by the European Commission Directorate-General for Development in collaboration with the African Development Bank, Asian Development Bank (ADB), Department for International Development (UK), Directorate-General for International Cooperation (Netherlands), Federal Ministry for Economic Cooperation and Development (Germany), OECD, World Bank, UNEP and UNDP



Kristalina Georgieva, World Bank, highlights key steps for coping with climate change and variability.

Rolf Zelius, ADB, introduced a joint agency consultation draft paper entitled "Poverty and Climate Change", which focuses on the effects of climate change on poor countries and adaptation measures. He underscored that reducing the vulnerability of the poor depends on decisions taken now.

Kristalina Georgieva, World Bank, emphasized strong governance as a key for helping the poor cope with climate change and recommended, *inter alia*: promoting responsive and accountable public institutions; strengthening short and medium-term poverty and climate monitoring and assessment; and integrating climate adaptation into national, sub-national and sectoral planning processes. She stressed the importance of enhancing the resilience of the poor, and called for, *inter alia*, supporting the financial resilience of those most vulnerable to climate shocks, and improving the management of natural capital. Georgieva underscored the need to improve the quality of growth, including integrating climate change adaptation into economic planning and budget processes, and designing climate change resilient infrastructures and investments. Regarding the reform of bilateral and multilateral development policies, she recommended: strengthening support from development agencies for adaptation; promoting synergies with relevant multilateral environmental agreements; and encouraging a focus on the poor within the UNFCCC. She concluded that: climate change adaptation is essential for sustainable development; adaptation requires increased awareness, capacity for action, and dedicated financial resources; and that the failure to act may have high future opportunity costs.

V.S. Ramamurthy, Indian Department of Science and Technology, stated that poverty is a challenge to all of humanity, and stressed the importance of preparing for climate change impacts before they happen.

Prodiptu Ghosh, India, called for the inclusion of the recommendations of the "Poverty and Climate Change" report in funding agencies' plans and activities.

Discussion: Participants discussed how debt exacerbates the vulnerability of the poor, the need for increased transparency within development banks and agencies, and whether development is the best way to increase resilience and reduce the vulnerability of the poor.

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Policies and measures of Annex I Parties presented in their third national communications

Presented by the UNFCCC Secretariat

Katia Simeonova, UNFCCC, presented an overview of key climate change policies and policy approaches reported by Annex I Parties in their third national communications. She highlighted, *inter alia*: the shift to mitigation policies; wider involvement of local governments; the role of the Kyoto Protocol in initiating and shaping policies and measures (PAMs); diversification of policies; the portfolio approach and synergies between PAMs; and the use of phased and integrated approaches. She said that national communications stressed criteria for the design of PAMs and their implementation, monitoring and evaluation of PAMs, and the role of new technologies.

Harald Diaz-Bone, UNFCCC, presented Parties' PAMs regarding the energy and transport sectors. He noted that key PAMs in the energy sector include promotion of renewable energy, energy efficiency, and the shift from carbon-intensive fossil fuels to natural gas. He said Parties reported mandatory policies such as taxes and energy trading schemes. Regarding the transport sector, Diaz-Bone identified use of regulatory, fiscal and economic instruments,

(Continued on page 3)



Katia Simeonova, UNFCCC, explains that the main drivers for significant emission reductions are a proactive climate policy including energy efficiency and fuel switching.

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Policies and measures of Annex I Parties

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information and education measures, and voluntary agreements. He said that policy options include energy efficiency programmes, carbon intensity, and transport demand management, and pointed to Finland's success in achieving its emissions reduction goal. Diaz-Bone said economic instruments do not bring major improvements.

Niklas Höhne, UNFCCC, presented an overview of PAMs related to the industrial and waste sectors. He noted that PAMs reported in industry included voluntary agreements, consultations, regulation, and taxation, and said abatement technologies in chemical production, aluminum production and HFC-23 by-production offer large emission reduction opportunities at low costs. Regarding the waste sector, he said that the main PAMs used are regulation and taxation. He explained that landfill emission reductions offer immediate reductions at low cost while waste minimization and recycling have mainly long-term effects.

Heikki Granholm, UNFCCC, introduced PAMs in the agricultural and land use change and forestry (LUCF) sectors. He said that some PAMs in the agricultural sector have wide policy objectives, while others target specific activities, such as nitrate pollution. He explained that some Parties identified PAMs with negative impacts. On LUCF, he noted that PAMs include afforestation and reforestation, development of national forest programmes and strategies, and forest management practices. He said that LUCF PAMs significantly contribute to climate change mitigation.

Discussions: participants discussed, *inter alia*, the need for a more critical approach when evaluating PAMs, challenges facing the transport sector, and quality of information contained in national communications.

Indian renewable energy programme: A developing country perspective

Presented by the Indian delegation in collaboration with the Indian Ministry of Non-conventional Energy Resources (MNES)

A.V. Singh, MNES, emphasized India's early start in renewable energy development.

A. K. Gupta, MNES, gave an overview of the Indian renewable energy programme. Stressing that India is the only country that has a ministry for renewable energy and dedicated financial institutions, and that it ranks second in the world for biogas production, he highlighted relevant research and development activities, including stakeholder involvement, and noted the development of policy guidelines for power projects and a draft electricity bill.

E.V.R. Sastry, MNES, noted that 400 million people in India live without electricity. He stressed that decentralized energy systems are appropriate for rural and remote areas and can help to improve the quality of life and protect the environment. He said that India aims to produce 200 megawatts from photovoltaics and build 500,000 square meters of solar thermal collectors by 2007.

K. C. Khandelwal, MNES, stressed the energy needs of rural households, noting India's pioneer research on improved stoves, including the development of efficient and user-friendly models. He highlighted the importance of women's self-help groups and international cooperation with developing countries.

Debashish Majundra, Indian Renewable Energy Development Agency (IREDA), described IREDA's role regarding renewable energy, including financing renewable energy projects and providing a revolving fund for promoting, developing, and commercializing renewable energy. He identified several barriers to renewable energy including technological risks, distortion in markets, limited availability of long-term funding, lack of economies of scales, and lack of awareness.

Shakuntala Gamlin, MNES, highlighted the World Summit on Sustainable Development's focus on energy and stressed India's contribution to the climate change process at the international and national levels, including ratification of the Kyoto Protocol, hosting of CDM projects funded by the Global Environment Facility (GEF), capacity building, and institutional developments.



A.K. Gupta says that one of the goals of the Indian renewable energy programme is the electrification of 5000 rural villages by 2012.

More information:

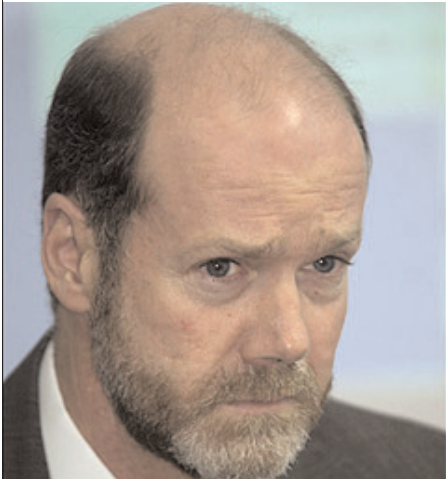
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International Clean Energy Collaboration

Presented by the National Association of Regulatory Utility Commissioners (NARUC)



Jim Gallagher, New York State Public Services Commission, says New York State hopes to become a leader in greenhouse gas emissions reduction.

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<http://www.naruc.org>
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James Atkins, South Carolina Public Services Commission, reviewed the clean energy policy options under consideration in the US, highlighting the use of renewable energy portfolio standards to remove market barriers to sustainable electricity generation. He outlined initiatives including: consumer education and green-pricing programmes; energy generation from landfills, solid waste and animal waste; net metering; public benefit funds to promote energy efficiency; and plans and standards to control GHG emissions using mandatory or voluntary user initiatives.

Jim Gallagher, New York State Public Services Commission, reviewed the GHG reduction initiatives underway in New York State, stressing that New York State wants to be recognized as a leader in this area and New York City as a center for emissions trading. He noted the establishment of a GHG taskforce to gather stakeholder's opinions and the adoption by New York State of a goal for reducing GHG emissions to 5% below 1990 levels by 2010 and 10% below 1990 levels by 2020.

Andrei Marcu, International Emissions Trading Association, stated that the development of a GHG market will be driven by the thoroughness of existing regulatory regimes, expectations regarding regulations and scarcity, and societal pressure. He emphasized that under the current political situation, both non-Kyoto and Kyoto-based GHG markets will emerge, which may have implications on the total volume of international trades.

James Ekmann, US Department of Energy, emphasized the links between price, availability of energy, and economic development, and stressed the importance of using existing infrastructures for reducing GHG emissions. Noting that fossil fuels are abundant and affordable, he recommended their continued use and called for carbon sequestration activities to mitigate climate change.

Kurt Zwally, Trexler and Associates, outlined the potential for financing clean technology through the carbon market. He noted that price levels will depend on buyer motivation and the quality of the offset, and that many uncertainties remain including baseline and additionality guidance, host country criteria and approval processes, auditing, and the procedures for issuing credits. Zwally concluded that GHG market demand will be encouraged by the entry into force of the Kyoto Protocol, the emergence of non-Kyoto markets, and the effectiveness of voluntary markets, while supply factors will be determined by the volume of hot air on the market, baseline requirements, and additionality.

The first decade of the GEF: Second Overall Performance Study

Presented by the Global Environment Facility

Ogunlade Davidson, EDRC, reviewed the aims, limitations, methodologies, results and recommendations of the GEF's second Overall Performance Study (OPS2). He said the GEF's portfolio demonstrated a wide range of approaches to promote energy efficiency and renewable energy, technology development, market-oriented approaches, capacity building, and institutional development. Davidson explained that the GEF needs to: target the productive use of renewable energy in rural areas; create enabling environments for market transformation; make better use of differing capacities; include the GEF Secretariat in mid-term reviews of projects; and increase the leveraging of projects.

Davidson said that: GEF projects covered important global environmental issues; it has served the global environmental conventions well; improvements are needed in GEF's country-level operations to improve understanding of the GEF in recipient countries; stakeholder participation must be addressed more systematically; there is a need for greater clarity in stakeholders' understanding of global benefits and incremental costs; better information and communication is needed when processing GEF projects to improve GEF's visibility; the catalytic role of the GEF needs better focus through mainstreaming, co-financing, and replication of GEF-funded activities; small grants and medium-sized projects must be increased; and the institutional roles and responsibilities of GEF partners need clarification and modification. He outlined the study's recommendations regarding the GEF partnership, strengthening country capacity, GEF operational issues, the capacity of the GEF Secretariat, and the strengthening of GEF's institutional capacity and structure.



Ogunlade Davidson, EDRC, outlines the conclusions and recommendations of the GEF's second Overall Performance Study.

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