Carbon Market
Frequently Asked Questions

What is a Clean Development Mechanism project?

The Clean Development Mechanism (CDM) is one of the flexible mechanisms under the Kyoto Protocol. The CDM offers developed countries (Annex I countries) the possibility to engage in economically and environmentally competitive emission reduction projects in developing countries (non-Annex 1 countries). Certified emission reductions (CERs) will be generated by CDM Executive Board through the CDM. Projects that will be implemented through the CDM have to fulfill additional criteria that will be defined by a national framework of the host countries.

The official United Nations Framework Convention on Climate Change (UNFCCC) CDM website is http://cdm.unfccc.int.

What is a Voluntary Carbon Market project?

A voluntary carbon market project is similar to a CDM project but it is not regulated by the UNFCCC. There are a variety of different standards that can be applied, dependent on the project type and size. The project developer can select the most relevant standard. Some standards are:

- Carbon Fix *www.carbonfix.info*
- Gold Standard *www.cdmgoldstandard.org*
- Plan Vivo *www.planvivo.org*
- Voluntary Carbon Standard http://www.v-c-s.org

Voluntary carbon market projects generate Voluntary Emissions Reductions (VERs).

What are the positives and negatives of the CDM versus the Voluntary Carbon Market?

The CDM is a robust standard that is strictly regulated by the UNFCCC. Due to this, carbon credits under the CDM have a much higher value. However, the CDM process can sometimes be long and complicated.

The Voluntary Carbon Market is not regulated by one regulator, but by a number of different organizations with different standards. This lower level of regulation results in a lower price per carbon credit. However, the voluntary carbon market process can be shorter and more flexible. This may be beneficial for smaller projects or projects types that are not applicable under the CDM. Many forestry or land use/land change projects are done under the voluntary carbon market.

What is the value of a CER and a VER?

There are two types of CERs and VERs – primary and secondary. Primary carbon credits are purchased from projects that are not yet operating; the credits are often forward sold, based on

the expectation of credits that a project will generate. Secondary credits are those that have already been issued.

The price of a primary carbon credit depends on a number of factors, mainly pertaining to the risk associated with the project. Different factors affecting the risk of the project could be: sector, location, size, experience of project developers in implementation and monitoring, applicability of approved UNFCCC or voluntary carbon market methodologies, etc. As primary carbon credit prices vary per project, they are not publically available.

One good source of prices of (estimated) primary and secondary CER prices is the Idea Carbon pCER Index. Thomson Reuters Carbon Market Community list secondary CER prices. VER prices are unknown but are typically a maximum of 50% of the prices of CERs.

Who is a non-Annex I country?

Non-Annex I countries are developing countries, under the Kyoto Protocol. Non-Annex I countries do not have legally binding emissions reductions targets. Rwanda is a Non-Annex I country.

How do developing countries benefit from the carbon market?

Developing countries benefit from the carbon market through the provision of an extra revenue stream for projects that reduce greenhouse gas emissions and contribute to the sustainable development of the country.

Who is an Annex I country?

Annex I countries are developed countries and countries undergoing the process of transition to market economy. All Annex I countries have specific limitation targets for greenhouse gas emissions.

How do developed countries benefit from the carbon market?

All Annex-I countries (except Belarus and Turkey) have legally binding green house gas emission reduction requirements under the Kyoto Protocol. The Clean Development Mechanism is one of the "flexibility mechanisms" of the Protocol to help these countries meet these targets.

Instead of countries reducing emissions in their own companies, Annex I countries can buy emission reductions from non-Annex I countries. For example, a CDM project such as a company switching fuels from coal to biomass results in a reduction of 100,000 tonnes of carbon dioxide per year in the atmosphere. If an Annex I country buys these credits, they can count towards the country’s Kyoto reduction targets.

In the voluntary carbon market, carbon credits are purchased by companies or individuals in order to help reduce their impact on climate change. Companies may purchase carbon credits in order to become “carbon neutral” or “green” companies. Individuals may purchase offsets in

order to offset their emissions from activities such as flying.

What is the CDM Executive Board (EB)?

The CDM Executive Board (EB) supervises the CDM, under the authority and guidance of the Conference of Parties/Meeting of Parties to the Kyoto Protocol. The EB is the technical committee of the United Nations Framework Convention on Climate Change (UNFCCC).

The EB is responsible for registering CDM project activities and for the operationalization of accreditation procedures and standards. Additionally, the EB is in charge of issuing CERs in accordance to the verification reports made by the Designated Operational Entity (DOE) and allocating the CERs into the Kyoto Protocol registry accounts.

The Board comprises 10 experts drawn from the parties to the Kyoto Protocol as follows: one representative from each of the five United Nations regions (Africa, Asia, Latin America and the Caribbean, Central Eastern Europe and OECD), two representatives from Annex I and Non-Annex I countries respectively and one representative from the small island developing states. There are also 10 alternatives to the EB. The EB elects its own Chair and Vice Chair, with one being a member from an Annex I country and one from a non-Annex I country.

What is a Designated Operational Entity (DOE)?

A Designated Operational Entity (DOE) is a company accredited by the CDM Executive Board that assess whether a project fulfills CDM criteria. A CDM project must be checked by two processes: Validation and Verification. Validation is done once before initial project approval. Verification is done periodically after the project has been approved or registered.

Voluntary carbon market standards allow validations and verifications by CDM accredited DOEs and/or DOEs approved by the voluntary carbon market organization.

A list of accredited DOEs can be found here: http://cdm.unfccc.int/DOE/index.html.

What is a Designated National Authority (DNA)?

All countries wishing to undertake CDM activities are required, according to the Kyoto Protocol, to appoint a Designated National Authority (DNA). One of the key tasks of the DNA is to establish an efficient and transparent national CDM project approval procedure for the evaluation of project ideas submitted to the authority and, in particular, to verify the projects' conformity to the national sustainable development criteria. Upon approval, the DNA is responsible for issuing the host country letter of approval (LoA) to the CDM project proponent, which is required before the project can be registered by the Executive Board.

Voluntary carbon market standards do not require a LoA. However, Rwanda will most likely enact legislation that will require the granting of a LoA for voluntary carbon market projects, as well.

The Rwanda DNA Permanent Secretariat is located in the Rwanda Environment Management Authority (REMA). The DNA Steering Committee is a cross cutting committee composed of members from sectors including government, non-profit, private and academic.

What is a Project Design Document (PDD)?

This is the principal document used by project participants to receive CDM and voluntary carbon market project approval. Its format is outlined in Appendix B of the Modalities and Procedures of the CDM. Its contents are evolving, and may change over time as the Executive Board (EB) of UNFCCC is continuously working on improving the modalities and procedures of the CDM.

Most voluntary carbon market standards utilize the CDM PDD format but some of the standards have their own standard-specific format.

CDM Project Cycle

1. Chose an Existing Baseline/Methodology or Propose a New One

There are large scale and small scale methodologies, depending on the size of the project. Methodologies are approved by the EB. A list of approved methodologies can be found here: http://cdm.unfccc.int/methodologies/index.html.

If the project is a first of its kind then it will probably have to propose a new methodology. However, proposing a new methodology is a time consuming and expensive process.

2. Complete a Project Design Document (PDD)

Preparing a PDD involved estimating your green house gas emissions from your project, reference scenarios and leakages. The PDD has to then build an argument to show that the project is "additional", or that carbon credits allow barriers to the project to be overcome. The main components of a PDD are:

- Project description
- Additionality
- Choice of methodology
- Description of baseline
- Calculation of ERs
- Monitoring plan
- Crediting Period – 10 or up to 3 x 7 years
- Analysis of environmental and social impacts
- Local stakeholder comments

3. Apply For Governmental Designated National Authority (DNA) Approval

In Rwanda, the DNA will grant a Letter of Approval based on a sustainable development checklist completed by the project developer. The sustainable development criteria are based on

relevant policies and laws in Rwanda. The approval process will take 30 days or less. Project approval procedures can be requested from the DNA and will be available on www.rema.gov.rw/dna.

Approval from the DNA of the Annex I project participant is also required, prior to submitting the project for registration.

4. Hire a Designated Operation Entity for Validation

A DOE will review the projects to ensure that it fulfills CDM criteria; the DOE also acts as an intermediary between the project developer and the Executive Board. After the DOE approves the project via a final validation report, the DOE will submit the project for registration with the UNFCCC Executive Board.

5. Register with the United Nations Framework Convention on Climate Change (UNFCCC)

The project will be automatically registered after 8 weeks (large scale) or 4 weeks (small scale) or the Executive Board will give a request for review for the project.

6. Monitoring

The project must be monitored in accordance with the monitoring plan in the PDD and the applicable UNFCCC monitoring methodology.

7. Hire a Designated Operational Entity for Verification

A DOE is hired for in second time after the project is registered for verification, which occurs after a project is operating and monitoring. For large scale projects, the DOE for verification cannot be the same DOE as for the validation stage. Verification is typically done on an annual basis but can be done as frequently or as infrequently as desired by the project developer, depending on the cost and benefit of the activity. Once the DOE is satisfied that the greenhouse gas reductions that were achieve, a final verification report will be granted.

8. Issuance by the UNFCCC

CERs will be issued automatically after 15 days or the Executive Board will give a request for review for the project.

Voluntary Market Project Cycle

A voluntary market project cycle is similar to that of the CDM project cycle but differs in a number of steps, dependent on the standard selected. The procedures of the different standards must be reviewed.

Some of the information was taken from the FAQs from the Indonesian National Commission for Clean Development Mechanism http://dna-cdm.menlh.go.id/en/info/?sub=4