

The CDM Umbrella Project for Methane Capture, Fossil Fuel Displacement, and the Co-generation of Renewable Energy in the Oil Palm Sector in Colombia



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Summary



The presentation highlights the main elements of the CDM Umbrella Project, in relation to: the participation of companies in the four oil palm regions; the conceptual framework and the implementation options based on the methodology chosen to structure the project; the United Nations Validation and Registration process; relevant impacts; economies of scale; the carbon market; and expectations of size and growth.



Participating companies: Following the 2005 pre-feasibility study, which highlighted the importance and advantages of companies participating as a group in what we call the CDM Umbrella project, there was a process of written consultation. In this process, 32 oil palm companies with processing plants voluntarily gave their approval. In 2006, the companies signed a binding contract with Fedepalma and made financial contributions, according to their size, in order to cover the administrative, legal, technical and logistical costs incurred up until that point.

General model and implementation options: The general model seeks to unify many aspects which are common to all the companies involved, regardless of their size, in terms of administrative procedure, evaluations, and approvals in



the project development process, thereby leading to significant cost reductions. Moreover, if these countries were to act independently, many of them would not have the opportunity to participate in a project of this nature due to the various costs and risks.

Following the pre-feasibility study, three options were put forward. These were: mitigation of methane emissions; use of methane to generate electrical energy; and co-generation with reduction estimates in each case, and hence the generation of CERs which could be sold in the carbon market. It was decided to apply the UN-approved AM0013V4 methodology to the project and to do so allowing companies a certain degree of flexibility in its development.

Validation and Registration: The Norwegian foundation DNV was chosen as the Designated Operational Entity to carry out the validation of the CDM Umbrella project, on the basis of its experience. The process was taken forward through the Mexico Link Office, culminating in a final revision by another auditor in India which gave a Positive Validation on July 13th 2008. This auditor requested that the CDM Executive Board register the project as a CDM project, given that it had complied with the requirements and demonstrated that its implementation would contribute to the mitigation of greenhouse gas (GHG) emissions under the framework of the Kyoto Protocol.

On July 31st 2008, through a bank in New York, the Project Registration payment was made to the UN, the final step of the approval phase. Following the revision of the documentation by the CDM group in Bonn, Germany, the project passed to a consultation phase, from October 9th to December 5th, listed with a potential of 750,076 CERs on the UN website. If no comments or observations are received during this period, the process will be considered complete and the project will be definitively approved as a CDM project. The project will then continue to the implementation and operation phase.

Application of the Fair Trade CDM Model: In the advisory work developed with CAEMA, there has been a great deal of clarity about the advantages of working under the Umbrella Project framework and of looking for the following benefits, among others: a) application of the market and regulatory models which are most favorable to the interests of the companies participating in Fedepalma; b) applying project economies of scale to minimize transaction, procurement and construction costs, and the costs of purchasing of measuring and monitoring equipment; c) optimizing the quantity of possible CERs within the production model and capturing the increased emissions associated with the year-on-year growth expected in the sector; d) selling the emissions reduction service (CERs), creating competition between the emitters and government in industrialized countries to give the best possible market price; e) optimizing the value of the future flow of CERs, understanding the market to negotiate unilaterally with the best proposals at any given moment.

International expectations: Due to the project's characteristics and size, and the potential quantity of the CERs, the signals from interested parties from different countries and organizations are highly favorable. As a result, we consider that we are arriving at a very interesting moment. We should take advantage of this moment in order to define the best financing and selling scheme, as Incorbank indicated in the financial study which it undertook for the CDM Umbrella Project.

Finally, it is worth highlighting that the Colombian oil palm sector's level of trust in the CDM Umbrella Project is equally high due to the excellent environmental aspects of the participating companies, whose performance is valued not just by the environmental authorities but also by the surrounding communities for the expected benefits from eliminating, mitigating and/or controlling emissions, waste and odours, as well as contributing clearly to the reduction of GHGs and to addressing climate change within the Kyoto Protocol framework.