

The Clean Development Mechanism (CDM): constraints and opportunities for the Sabah forestry sector

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Abstract Brief accounts of the recent development in the international negotiations of the climatic treaty as well as the stand and efforts on climate change issue done at the federal and state level with regard to the forestry sector are given. Ineligibility of funding for forestry carbon projects under the current rules of the Clean Development Mechanism (CDM) is seen as a major constraint for the forestry sector to play an influential role in combating climate change. Non-CDM funding may provide a short-term solution to the already constricted financial situations in the forestry sector. Capacity building of the Sabah Forestry Department is seen as a viable opportunity to be taken up by this seminar.

Introduction

According to the Intergovernmental Panel on Climate Change (IPCC), there has been an unprecedented warming trend during the 20th century (UNFCCC 1994). The current average global surface temperature of 15°C is nearly 0.6°C higher than it was 100 years ago and scientists estimate that it could rise another 1.4°C to 5.8°C by the end of this century (IPCC 2000). The ten (10) warmest years have all occurred in the past fifteen years, the 1990's being the hottest decade on record. The six main greenhouse gases (GHGs) that are linked to global warming are carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆).

The increased rate of emission of these gases have manipulated the 'greenhouse effect' to warm the earth to a degree that will have

devastating ecological, social and economical consequences. Regional and global assessments have indicated the profound impact that climate change will have on water supplies, agricultural productivity, biodiversity and human health.

As a consequence of the worldwide concern over global warming, the United Nations Framework Convention on Climate Change (UNFCCC) was adopted in 1992 at the Earth Summit in Rio de Janeiro. Currently, 186 countries are Parties to the Convention (UNFCCC 2005). The UNFCCC aimed at stabilizing the concentration of greenhouse gases (GHGs) in the atmosphere. Subsequently in 1997, the convention endorsed the Kyoto Protocol, an agreement requiring the industrialized (Annex I) nations to reduce their GHGs emissions to an agreeable level by 2012¹. The Kyoto Protocol entered into force on 16 February 2005 following Russia's ratification that has met the requirement of having at least 55 Parties to the UNFCCC, incorporating Annex I Parties which accounted in total for at least 55% of the total carbon dioxide emissions for 1990.

To ease the financial burden of "cleaning up" of GHGs emissions in the Annex I countries, the Protocol provided for a flexible mechanism known as the Clean Development Mechanism (CDM) for these parties to implement their carbon sequestration projects in the developing nations (Non – Annex I). As a developing country, Malaysia is currently not subjected to any commitments towards reducing greenhouse emission under the protocol².

¹ A brief description of the Protocol is given in Appendix 1.

² The national leadership however had set the year 2020 as a target for the achievement of a developed nation status. Depending on an assessment of the status of carbon emission at that time, Malaysia would have to be

This paper describes briefly both the recent development of the negotiations at the various Conferences of Parties (COP) and the latest stand on the CDM and climate mitigation efforts both at the national and state levels.

Malaysia's commitment on global warming

Malaysia signed the UNFCCC on June the 9th in 1993 and ratified it on the 17th of July 1994. Since then as a member of the G77 and China group, Malaysia has always contributed actively to the rounds of negotiations at the UNFCCC. To reflect the implementation of its commitments, a National Climate Committee (NCC) was established in 1995 under the auspices of the then Ministry of Science, Technology and Environment. Funding by the Global Environment Facilities (GEF) was provided in 1997 to strengthen and assess Malaysia's GHG baseline data, and to develop institutional expertise and adaptation strategies for GHG emissions³.

Efforts on the National Communication

Under the stewardship of the National Steering Committee on Climate Change (NSCCC), Malaysia submitted its Initial National Communication (INC) to the UNFCCC in 2000, which is required by Article 12 of the Convention. The INC was an output of the UNDP/GEF Project "Enhancement of Technical Capacity to Develop National Response Strategies to Climate Change".

The INC, prepared in accordance with the guidelines adopted in Decision 10/CP.2, was a first

prepared for an emission target to be kept if she is found to be a net carbon emitter. Under the Initial National Communication, Malaysian forests are found to be a net carbon sink.

³ Based on 1994 data, Malaysia's greenhouse gas emissions totaled the equivalent of 181 million tonnes of carbon dioxide. Net emissions after accounting for sinks totaled the equivalent of 112 million tonnes. The land use change and forestry sector involves both the emission and sink of GHGs. Emissions of CO₂ occurs mainly through the forest and grassland conversion, which totaled about 7,636 Gg in 1994. The changes in forest and other woody biomass stock result in a net CO₂ sink of about 68,717 Gg. The on-site burning of forest releases some 0.132 Gg of CH₄ and 0.001 Gg of N₂O in 1994. (FRIM, 2003).

step in the country's implementation of the UNFCCC (MNRE (CEMD)/DANIDA 2005). The preparation of INC involved scientists, experts and individuals from various government agencies, universities, research organizations, non-governmental organizations and private entities. Background documents pertaining to climate change scenarios, inventories of GHG, assessment of impacts of climate change, public awareness and education and abatement measures were prepared.

As a party to the UNFCCC, Malaysia will continue to communicate to the Convention on its national GHG inventory and information on activities envisaged to implement the Convention. As such, Malaysia has recently begun the preparation of Second National Communication (NC2), not merely to fulfill its commitment to UNFCCC, but also to enable the country to identify national priorities and needs in order to facilitate decision-making by the policy makers. The Ministry of Natural Resources and Environment (NRE) has initiated several activities, through the support of DANIDA, to contribute to the preparation of its NC2⁴.

The Sabah Forestry Department (SFD), under the 9th Malaysia Plan (RMK 9), has submitted a proposal for carbon sequestration and other climatic mitigation studies for Federal government funding. Initial development so far indicated a possibility of getting the fund approved. Further refinement on the proposal may still be necessary to align its objective to the major development thrusts of the Malaysian forestry sector under the RMK 9.

The Clean Development Mechanism (CDM)

The CDM was established under Article 12 of the Kyoto Protocol, for climate change mitigation projects between Annex I countries and non-Annex I countries. The CDM was established for two (2) purposes, namely, to assist the non-Annex I Parties in achieving sustainable development thereby

⁴ Apart from the finalisation of technical reports, altogether seven (7) activities had been identified under the NC2 work plan. These are analysis of the National Circumstances, GHG inventory, facilitation of adaptation and mitigation measures to climate change, analysis of relevant information in the achievement of the objective of the Convention and identifying constraints, gaps, related financial, technical and capacity needs.

contributing to the UNFCCC's objectives, and to assist the Annex I Parties in achieving their GHG emission reduction targets through implementation of carbon-offset projects in the non-Annex I countries. All CDM project investments must also be independently certified. This latter requirement gives rise to the term "certified emissions reductions" (CERs), which describes the output of CDM projects. The CERs generated by such project activities will be used by the investing Annex I Party to help meet their emissions targets under the Kyoto Protocol.

The Annex I Parties are expected to contribute financing, technology transfer, and other support for these projects in the developing countries. Project implementation, however, would have to adhere to a number of defined rules and procedures set by the COP and to be approved by the CDM Executive Board. Both Rahim (2005) and Shamsuddin *et al.* (2005) described further the other features of the CDM and the role of forestry in mitigating climate change with regard to the carbon management activities.

For forestry carbon offset projects the output would be termed as temporary and long-term CERs (tCERs and lCERs) as the CO₂ sequestered could be released into the atmosphere in the case of forest fire and diebacks. Parties may offset their emissions by increasing the amount of greenhouse gases removed from the atmosphere by so-called carbon "sinks" or reducing emissions in the land use, land-use change and forestry (LULUCF) sector. However, due to restrictions under some of the Protocol's Articles, only certain activities in this sector qualify for CDM funding.

Government views on the CDM

Malaysia became a signatory to the Kyoto Protocol on 12th March 1999 and announced the country's ratification of the Protocol during the "Second Earth Summit" on 4th September 2002 in South Africa. Being a party to the Protocol, Malaysia is committed to the full implementation of the CDM in an equitable manner and sees it as a vehicle that can create opportunities for investments in projects on GHG emission reductions, contributing both to the economic and environmental well-being of the country. Early efforts in developing a National

Policy and technical framework included a National Policy Seminar on the CDM held in August 2002. It was attended by multi-stakeholders from the energy and industry, transport and the forestry sectors. Relevant Institutional issues, barriers and methodologies in the implementation of CDM projects focusing on the energy, transport and forestry sectors were discussed. Rahim (2005) provided a detail account of the Policy stand adopted in the National Seminar.

Institutional infrastructure

The Federal Cabinet established a National Steering Committee on Climate Change (NSCCC) in 1994. Subsequently in 31 May 2002 another body, National Committee on Clean Development Mechanism (NCCDM) was established. The Chairmanship and the Secretariat of the Committee was given to the Ministry of Science, Technology and Environment and two (2) Technical Committees support it. The Technical Committee on Energy (TCE) was chaired by the Ministry of Energy, Communications and Multimedia while the Ministry of Primary Industries chaired the Technical Committee on Forestry (TCF).

Since the changing of the Federal Cabinet structure in 2004, the Natural Resource and Environment Ministry (NRE), has been appointed as the Chairman (NRE's Secretary General) and the Secretariat for the NSCCC. The Ministry of Energy and NRE currently chair the TCE and TCF respectively. Among the tasks of the technical committees are to identify CDM project activities that meet national sustainable development criteria, design selection criteria, recommend the selection and approval of projects to the National Committee, monitor the implementation of projects and to accredit and register CDM service companies. The National Committee reports the progress and status of projects to the National Steering Committee on Climate Change. Recently, Malaysia has also notified its Designated National Authority (DNA) for the CDM. The DNA is now fully operational. Project proponents submit their project proposals to the National Committee on the CDM and these proposals are evaluated by either of the technical committees. The Institutional Structure on the CDM and the detailed functions of the NCCDM, the

Technical Committees and the Designated National Authority (DNA) are described further in **Appendix 2 and 3**.

Forestry carbon projects in Malaysia

There are already several energy projects in the country that have been approved by the DNA and registered in the Executive Board of the UNFCCC but none on forestry projects yet. It was partly because the forestry (A/R) projects have been given lower priority until recently as the modalities have only been approved in 2004 (Shamsuddin *et al.* 2005).

Carbon reduction forestry projects done during the pre – Kyoto period in Sabah by Innoprise Corporation Sendirian Berhad (ICSB) were the Innoprise-Face Foundation Rain forest Rehabilitation Project (Infapro) and the ICSB – New England Power (NEP) reduced-impact logging (RIL). Infapro is still being evaluated for submission to the relevant parties⁵.

Eligible forestry activities under the CDM

As provided under **Article 3.3** of the Protocol, in the initial COP negotiations, the forestry activities to be used by Annex I Parties in meeting their emission reduction commitments were restricted to the **afforestation, reforestation (A/R), deforestation and forest management** activities. Eventually the COP 7 held at Morocco decided to include only the **A/R** as the accepted forestry activities in the first commitment period (2008 –2012) under the CDM⁶. The COP would determine the modalities, rules and guidelines for using the **A/R** as provided under **Article 3.4**. Definitions and modalities for such forestry activities under the CDM were finally adopted in COP 9 for implementation in the first commitment period.

⁵ The RIL project is not eligible for consideration under the Kyoto Protocol as NEP, is located in the United States of America (USA) which is not a party to the Protocol.

⁶ Section 7. (a) of the Marrakesh Accords states that ... the eligibility of land use, land-use change and forestry project activities under the clean development mechanism is limited to afforestation and reforestation... (UNFCCC 2005)

A/R definitions

Under the adopted rules adopted by COP 7, the eligible **afforestation** activity is defined as the direct-human conversion of land that has not been forested for a period of at least 50 years to forested land through planting, seedling and /or the human-induced promotion of natural seed sources.

The eligible **reforestation** activity on the other hand is defined as the planting of forest on land, which previously had forest but was seriously degraded prior to 1990. This means **reforestation** activities established simply after cutting down current forests as stipulated under the Sabah's SFM practices do not qualify as acceptable CDM forestry projects.

To be eligible, the CDM forestry project has to demonstrate a real land-use change from non-forest to forest, and thus prevent current forests from being converted into plantations. For example, the accepted CDM forestry projects should involve the conversion of agricultural, industrial, commercial or residential land to forest.

Additionality

The “**additional**” provision under **Article 6.1 (b) and 12.5 (c)** restricted further the usage for the **A/R** activities under the CDM. This means that to be eligible all forestry carbon projects must demonstrate that the GHGs reductions that occur in the project activity must be additional to what would have taken place without the CDM project. In other words to qualify for the forestry carbon offset projects under the CDM had to be those that were not meant for implementation under the normal forestry's “business as usual” (BAU) practices.

Eligible SFM activities

The implementation of Sustainable Forest Management (SFM) system in Sabah started at Deramakot Forest Reserve in 1989 in the collaboration with the German Agency for Technical Co-operation (GTZ). This reserve is a Class 2 Commercial Forest Reserve and managed in accordance with the principles of sustained yield

and multiple-use forest management. It was certified by the Forest Stewardship Council as a well-managed forest in 1997. In the same year, the Sabah state government entered into Sustainable Forest Management Licence Agreements (SFMLA) with 13 different companies for the implementation of SFM in the state. Each of those agreements is in force for a period of 100 years covering specific Forest Management Unit (FMU) of about 100,000 ha of largely logged-over production forest.

Under the current forestry management requirements in Sabah, stipulated in the terms of the SFMLA, the preparation as well as the implementation of Forest Management Plan (FMP), the Comprehensive Harvesting Plan (CHP), reduced-impact logging (RIL), enrichment planting, silvicultural treatments, and other relevant forest management efforts are mandatory forestry activities and practices to be implemented by the SFMLA's holders. In the evaluation of the progress of SFM in Malaysia, all of these practices are also used either as indicators/verifiers or as activities and standard of performance. Such action reinforces further that these forestry activities are not "additional" to SFM as they formed the standard "BAU" practices for implementation in the country.

The recent development under the CDM therefore excludes the eligibility of the SFM activities widely practiced by the long-term sustainable forest management agreement (SFMLA) holders in Sabah (Rahim and Anuar, 2005)⁷. Under the rules recently adopted in COP9, the only eligible LULUCF activities in Malaysia are restricted to those that meet the definitions of the **A/R** and perhaps the **additionality** provision such as abandoned shifting cultivation areas, tin tailings, Bris soils as well as line/vacant land planting (Rahim 2005).

Opportunities for forestry carbon projects

Forest plays an important role in the carbon cycle by absorbing carbon dioxide and releasing oxygen to the atmosphere through the natural process of photosynthesis. Carbon dioxide is converted to carbon (sequestered) and stored in the woody tissue (biomass) of the plant. The rate at which carbon is sequestered varies by the site, age, management and species characteristics of the forest. Managing the existing forest resource including carbon sequestration and storage involves minimizing the loss of forest area due to deforestation, maintaining or improving tree growth, minimizing soil disturbance and residual stand damage during timber harvesting, ensuring satisfactory natural regeneration of harvested forest and forests damaged by fire, insects, and diseases; improving forest fire suppression and management capabilities; adopting reduced-impact logging practices; and minimizing the negative environmental impact of road construction.

In reality, the practice of SFM activities to sequester carbon by promoting forest establishment and growth, or to avert the loss of standing forest resources from land clearing, disease or fire should potentially be an important strategy for slowing climate change. However, unfortunately all types of carbon sequestration activities under SFM are not eligible for CDM support currently. Seeking fund from the Non-Kyoto Parties and the retail "green market" (also known as non-CDM funds) is an alternative, which the Federal government could consider as foreign direct investment (FDI) under the forestry sector. These, however, may only provide short-term solutions to the mega fund required for SFM implementation. Rahim and Anuar (2005) suggested some opportunities which the forestry sector in the state could adopt. By and large their suggestions may not be realized in the immediate term as they involve forestry and financial policy shifts at the state and Federal level. However, one of the suggestions involving capacity building in carbon expertise may be feasible to be taken up further in this workshop as it is in line with those under the NC2.

⁷ The enrichment planting and forest plantation establishment activities, which formed part of the SFM standard practices in Sabah do not meet the established definitions for **A/R** under the CDM. To be eligible for funding under the Kyoto Protocol, all forestry carbon projects have to demonstrate that they are "**additional**" or new undertaking to the "BAU" under SFM and that they meet the definitions set for the **A/R** activities.

Conclusion

After numerous negotiations by the COP of the UNFCCC, the much awaited forestry role in the global climatic treaty had been limited to include only the A/R activities. Such restriction, together with the need for additionality assessment of carbon forestry projects under the CDM had excluded the eligibility of the SFM activities in Sabah. Under the current rules of the CDM, even the pre-Kyoto projects such as the Infapro may not be eligible. Given these constraints the only eligible forestry carbon projects would now appear to be confined to the afforestation of abandoned grass land areas or reforestation of non-forested areas largely existing outside the forest reserves. Opportunities to go forward for the forestry sector in playing an active role in the global climatic agenda appear to be limited and would involve the usual lengthy journey in policy changes. A viable option suggested for this seminar is to look at the need for capacity buildings of the Sabah Forestry Department.

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Appendix 1. The Kyoto Protocol

The Kyoto Protocol was adopted at COP-3 in Kyoto Japan in December 1997, bringing the international community a step closer towards the implementation of a global Climate Treaty. Under the Protocol, the UNFCCC member nations were divided into three large groups, namely The Annex I, Annex II and non-Annex I parties, each one given different responsibilities and role under the Protocol.

The Annex I parties include the 36 industrialised countries that were part of the Organization for Economic Co-operation and Development (OECD), plus countries with economies in transition ((EITs) such as the Russian Federation and several Central and Eastern European countries of the former Soviet Bloc)). Annex II parties (also known as Annex B Parties) are all the parties of Annex I not including the EITs. Non-Annex I parties include all other states party to the convention, mainly developing countries. They do not have any emission reduction target, as compared to both Annex I and II Parties.

The four main output of the Protocol were:

- The binding commitments by the Annex 1 countries to reduce their overall GHG emissions by an average of 5.2 % below the 1990 levels. The specific targets of reduction vary from country to country. There was no emissions target for the non-Annex 1 countries.
- The reduction should be undertaken over the period from 2008 and 2012, defined as the First Commitment Period.
- Three (3) market-based mechanisms, viz, International Emission Trading (EIT), Joint Implementation (JI), and the Clean Development Mechanism (CDM) were approved to facilitate these GHG emissions reduction targets. The CDM was the only mechanism that was achievement of allowed the participation of the non- Annex I countries (developing countries) in the climate change mitigation.
- Recognition of the Land use, Land use Change, and Forestry (LULUCF) activities under various sections of Article 3 as valid options for reducing net concentration of atmospheric GHG. Carbon offsets can also be generated by GHG reduction projects in the energy, construction, commercial, transport, industrial and other sectors.

The Kyoto Protocol was opened for ratification on March 16, 1998. The Protocol had entered into force on the 16th February 2005, after Russia's ratification had met the requirement of having at least 55 parties to the UNFCCC, including Annex 1 Parties representing at least 55 % of the total CO₂ emissions for 1990. To date, a total of 150 countries* had ratified the Protocol, including Annex 1 Parties, representing a total of 61.6 % of CO₂ emissions (UNFCCC, 2005). Malaysia signed and subsequently ratified the Protocol on 12th March 1999 and 4th September 2002 respectively. Being a Party to the Protocol, Malaysia is committed to the full implementation of the CDM in an equitable manner. Rahim (2005) gave further description of the current institutional infrastructure and the application procedures for CDM forestry projects in Malaysia.

* Unfortunately the United States of America (USA), which is responsible for an estimated 25% of the GHG emissions decided to stay out by its non-ratification of the Protocol in March 2001. The main reason was the Protocol would raise energy prices and cost five (5) million U.S. jobs. Australia adopted a similar stance not long after that.

Appendix 2. Institutional set up for CDM in Malaysia

1. Introduction

Recognising the importance of climate change and active involvement of the government in the activities related to the Convention, a National Steering Committee on Climate Change (NSCCC) was established in 1994 to oversee and address all issues related to climate change, the Convention and the Kyoto Protocol. The NSCCC has established a two-tiered organisation for Clean Development Mechanism (CDM) implementation in Malaysia (**Figure 1**). The NSCCC chaired by the Secretary General of the Ministry of Natural Resources and Environment (NRE) agreed on 31 May 2002 to:

- Establish a National Committee on CDM (NCCDM), its Terms of Reference (ToR) and membership and
- Establish two Technical Committees, namely on the Energy Sector (TCES) and the Forestry Sector (TCFS), respectively chaired by the Ministry of Energy, Water & Communications (MEWC) and the Ministry of Natural Resources and Environment (NRE).

The Conservation and Environmental Management Division (CEMD) at NRE is the Designated National Authority (DNA) for CDM in Malaysia. The DNA has been registered with the UNFCCC secretariat. The role of the DNA is to issue the Host Country Letter of Approval to the CDM project proponent. This letter is required before registration of the CDM project with the CDM Executive Board.

2. Role of NCCDM

- To review and recommend CDM project proposals that meet the national criteria for approval.

3. Terms of Reference (ToR) of NCCDM

- To develop policies, direction, strategy, criteria and guidelines for implementation of CDM projects at national level.
- To receive, evaluate and recommend CDM project proposals after obtaining comments and views from the Technical Committees.
- To monitor CDM projects and inform its status from time to time to the NSCCC.
- To hold meetings of the NCCDM at least four times a year.

4. Membership of the NCCDM

1. Deputy Secretary General (Policy), Ministry of Natural, Resources and the Environment - **Chairman**
2. Conservation and Environmental Management Division, NRE - **Secretariat**
3. Malaysian Meteorological Service
4. Ministry of Plantation Industries and Commodities
5. Ministry of Energy, Water & Communications
6. Economic Planning Unit
7. Ministry of International Trade and Industry
8. Ministry of Transport
9. Centre for Environment, Technology and Development
10. Forestry Division, NRE

5. Terms of Reference (ToR) for Forestry Technical Committee

1. To provide policy guidance on CDM projects to the National Committee on CDM
2. To ensure that CDM project proposals comply with national criteria and guidelines for CDM projects
3. To undertake technical evaluation of the CDM Project Idea Notes (PINs) and Project Design Documents (PDDs)
4. To recommend and submit evaluated CDM project proposals to the NCCDM for consideration
5. The Technical Committee shall meet at least 4 times a year.

6. Members of the Technical Committee for Forestry CDM Projects

- Undersecretary (Forestry Division) Ministry of Natural Resources and the Environment - **Chair**
- Forest Research Institute Malaysia (FRIM)
- Forestry Department Peninsular Malaysia

- Forestry Department Sabah
- Forestry Department Sarawak
- Malaysian Palm Oil Board
- Malaysian Rubber Board
- Malaysian Agriculture Research Development Institute
- Ministry of Plantation Industries and Commodities
- Environmental Protection Society Malaysia
- Malaysian Nature Society
- CEMD
- Pusat Tenaga Malaysia
- **Secretariat – FRIM**

7. FRIM as the CDM Secretariat for CDM Forestry Project

Although FRIM has been assigned as the secretariat for considering application of CDM projects on forestry, it has not been operational yet. This is partly due to the fact that the rules and modalities for forestry projects had only been agreed in the last COP 9 and 10 Meetings in 2003 and 2004 respectively. FRIM has assigned the International Unit to take the role of the Secretariat and is in the process of assigning key personnel.

8. Proposed Terms of Reference (ToR) of Forestry CDM Secretariat

The Secretariat will provide support to the CDM Technical Committee for Forestry in carrying out its duties. In addition, to foster and promote CDM project development, the Forestry Secretariat acts as a resource centre on CDM in providing the following assistance:

- Provide background materials needed on all aspects of the CDM project cycle including internationally approved guidelines for baselines studies and monitoring procedures.
- Assist the Technical Committee by setting up a national website on CDM projects activities.
- Provide inputs to the formulation of the CDM forestry policy and promotional strategy (i.e. formulation of methodologies, such as baseline setting, assessment of needs for capacity building assessment of CDM potential in Malaysia).
- Create a national database on the major stakeholders in CDM forestry project development.
- Create awareness and disseminate information (through the website, media and organisation of events, such as seminars and stakeholder meeting).
- Document and monitor successful projects and "good practices".
- Network with national stakeholders and identify local experts.
- Provide advisory services to foreign and local investors and developers in the identification and development of project proposals.
- Conduct technical evaluation of CDM project proposals

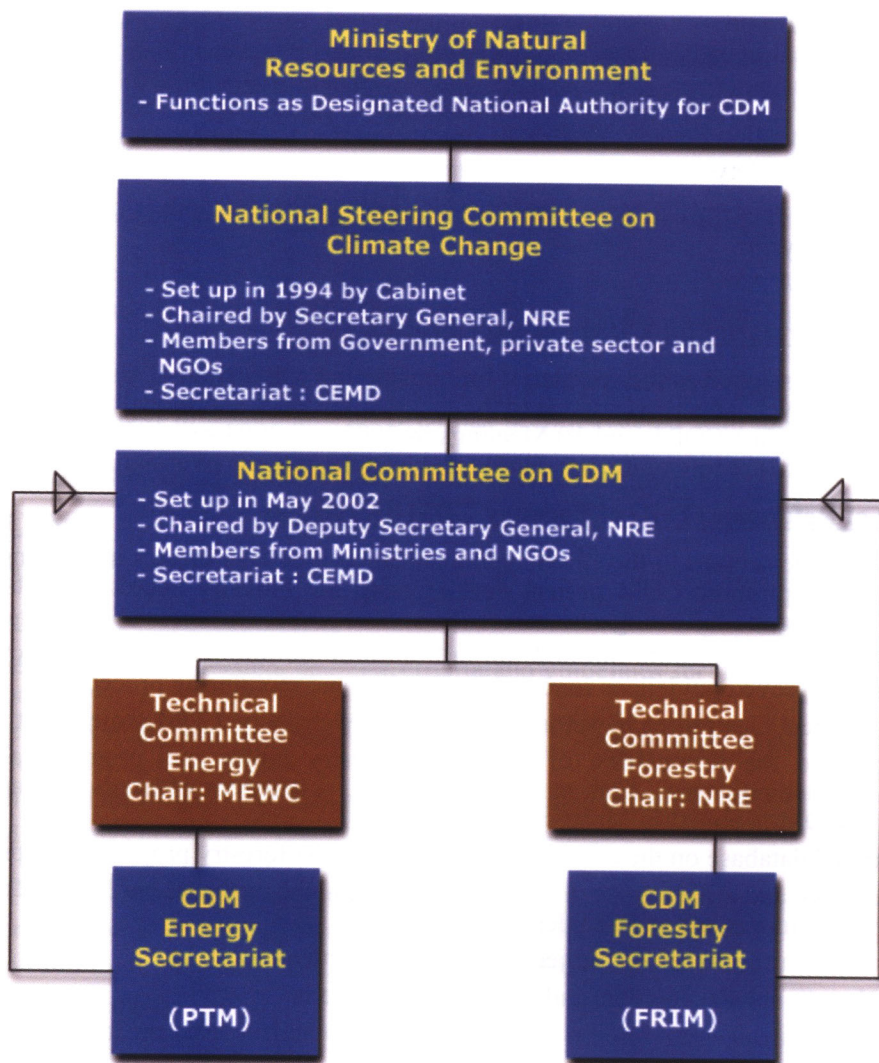
9. Application for CDM Projects

Project developers are required to submit the Project Idea Note (PIN) as the preliminary screening document to the DNA, which is the Conservation and Environmental Management Division (CEMD) of Ministry of Natural, Resources and Environment (NRE), which carries out the initial screening. For forestry projects, the PIN will be forwarded to FRIM for technical evaluation of the project. The CDM Forestry Secretariat in FRIM may liaise with the project developer for more details and/or clarification. It will then carry out the technical evaluation with assistance of a Task Force, if necessary. The Technical Committee will review the technical evaluation and recommendations of the CDM Forestry Secretariat and forward its finding and recommendations to the National Committee on CDM (NCCDM).

The NCCDM bases its decision on the recommendations and opinion of the Technical Committee. If the NCCDM finds that the proposed project complies with all the national requirements, a conditional letter of approval will be issued by the DNA. This authorises the project partners to take part in a CDM project. **Figure 2** shows the various stages an application for CDM project would have to go through.

The Ministry has indicated to FRIM that the secretariat will have to be operationalised. In this regard, they have contacted the Danish embassy to explore possibilities of providing some assistance similar to that DANIDA is currently providing to Pusat Tenaga Malaysia, which is the secretariat for CDM energy projects. It was indicated that DANIDA is willing to support FRIM in capacity building and other assistance in operationalising the secretariat. However, they would like to see a specific Unit being set up to support the secretariat for this purpose. Further discussion will proceed once FRIM agrees to formally set up the

secretariat.



- CEMD:** Conservation and Environmental Management Division
- MEWC:** Ministry of Energy, Water and Communication
- PTM:** Pusat Tenaga Malaysia
- FRIM:** Forest Research Institute of Malaysia
- NGOs:** Non-Governmental Organisations

Figure 1. The set-up of the CDM national institutional arrangement.

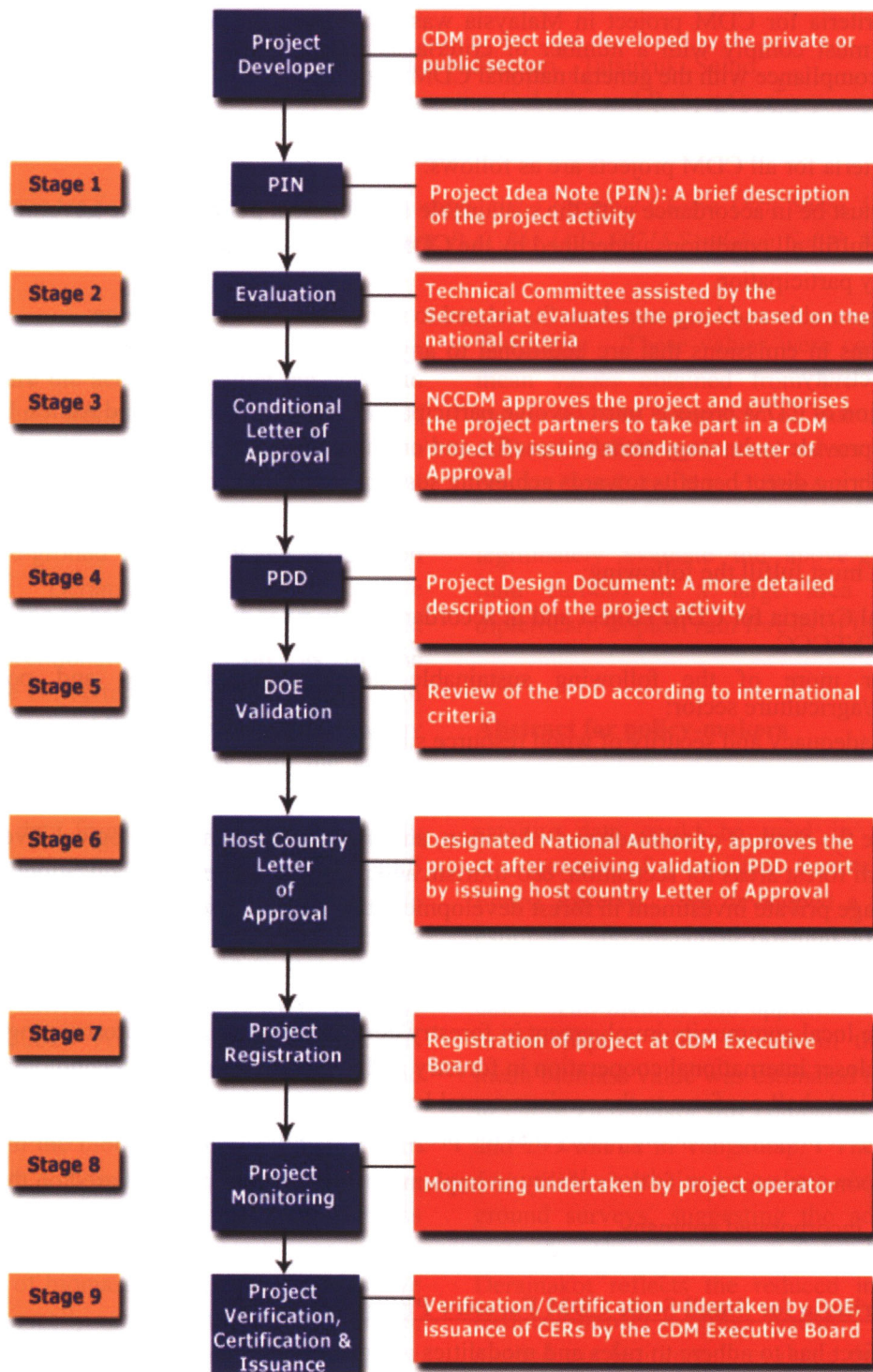


Figure 2. Various stages a CDM project will have to go through.

Appendix 3. Criteria for forestry CDM projects

A. Introduction

The national Criteria for CDM project in Malaysia was formulated by the NCCDM on 15 August 2003. CDM projects must comply with a number of criteria as stated below. Approval of a CDM project is conditional on compliance with the general national CDM criteria.

B. General National CDM Criteria

The national criteria for all CDM projects are as follows:

1. The project must be in accordance with the sustainable development policies of the government;
2. Project must fulfill all conditions underlined by the CDM Executive Board as follows:
 - a. Voluntary participation
 - b. Real, measurable and long-term benefits related to mitigation of climate change;
 - c. Reductions in emissions that are additional to any that would occur in the absence of the certified project activity.
3. Implementation of CDM projects must involve participation between Malaysia and Annex 1 Party/Parties;
4. Project must provide technology transfer benefits and/or improvement in technology;
5. Project must bring direct benefits towards achieving sustainable development

C. Proposed Criteria for CDM Forestry Projects for Malaysia

Forestry project must fulfill the following;

- National Criteria for CDM Project and in accordance with rules and modalities as agreed by the COP of the UNFCCC.
- One or more of the following sustainable development strategies and policies of the forestry/agriculture sector:
- Ensure adequacy and security of wood resource supply;
- Promote the establishment of forest plantations of indigenous and exotic species to supplement timber supply from the natural forests;
- Promote the conduct of research and education, and the conservation of biological diversity;
- Establish forest areas for recreation, eco-tourism and public awareness and education;
- Encourage private investment in forest development through the development of forest plantations in private on non-forested lands;
- Promote establishment of community forests to cater needs of the rural and urban communities through eradication of poverty and diversification of income sources;
- Promote local community involvement in forestry development and agro-forestry programmes;
- Foster closer international cooperation in forestry and to benefit transfer of technology.
- The project shall conform to the environmental legislations/regulations of Malaysia.
- The project proponent should justify that the project utilizes the best available technologies.

The project proponents must justify their ability to implement the proposed project based on the following:

- Locally incorporated company
- Likely sources of financing the project

D. Proposed Criteria for Small Scale CDM Forestry Projects

Small-scale project has to adhere to rules and modalities as agreed by COP 10 of UNFCCC. Amongst others they include:

- The threshold of 8000 tonnes CO₂ sequestration per annum is based on the estimated average level during the first verification period. If actual sequestration is higher, only 8000 (T)CERs/(L)CERs will be issued per annum.
- No adaptation tax is to be paid and registration and administration fees will be reduced