

Agenda item 5 d

Paragraph 78 of the annotated agenda

Market and policy developments

CDM EB 61

Bonn, Germany, 30 May to 3 June 2011



Recap on market and policy developments and prospects

- Magnitude of the CDM
- Market health and uncertainty
- Indications of future offset demand
- Emerging sources of offset supply
- CDM pricing and market value

Request for feedback on Board's information needs

Board
decisions



Market activity and
policy developments

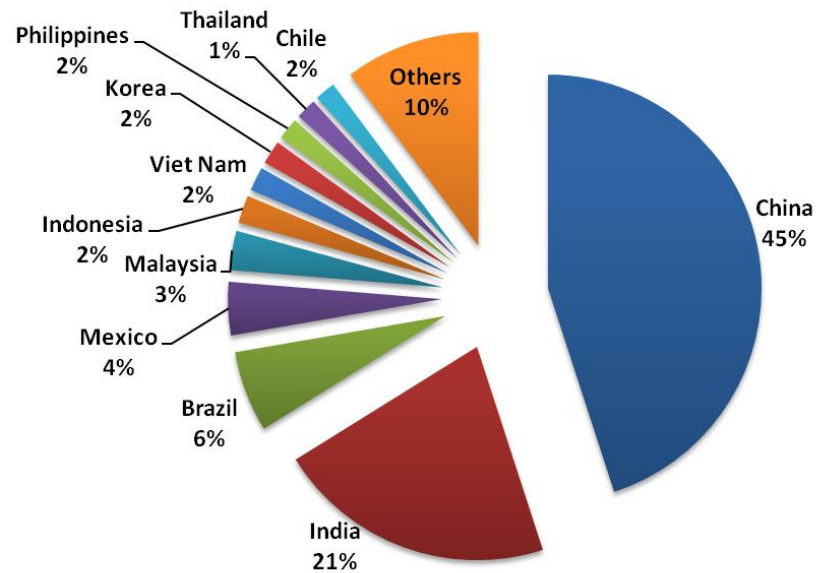


- World's largest provider of offset credits
- Near monopoly in supplying offsets to national and regional cap-and-trade systems
- Growing vulnerability to potentially scarce demand and emerging alternative sources of offset supply

CDM until now, by host country

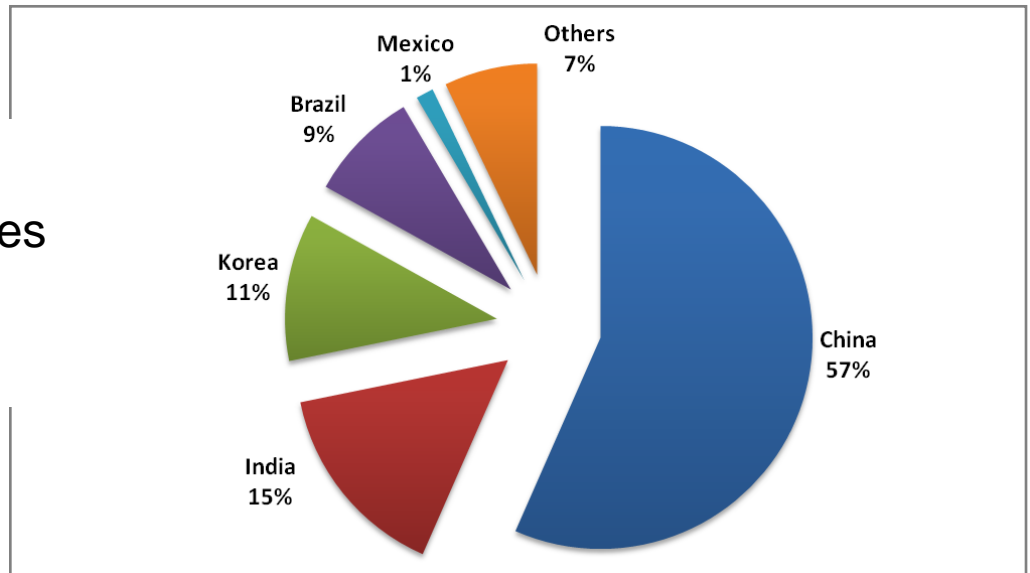
Registered projects

- 3131 projects in 70 countries
- Geographically concentrated (76% of projects in 4 countries)
- Full pipeline of 6229 projects

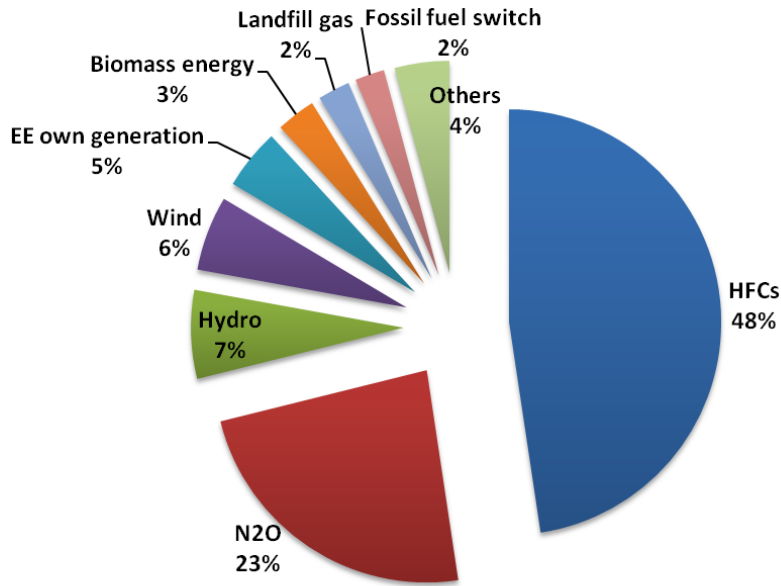


CER issuance to date

- 621 million from 43 countries
- 92% from 4 countries



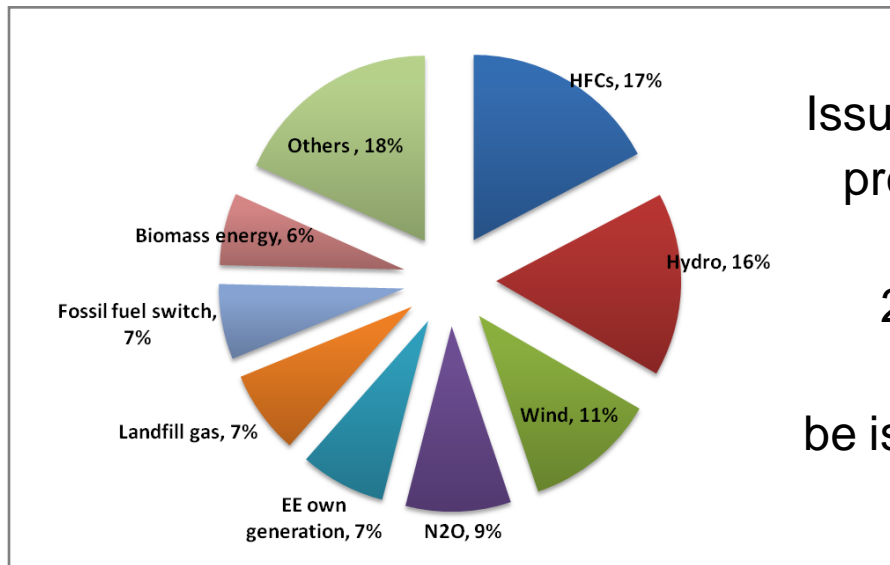
Evolving issuance and project types



Issuance so far

- 621 million CERs
- 71% from industrial gases (48% HFCs, 23% N2O)

UNFCCC, UNEP Risoe (May 2011)



Issuance from the full pipeline would see project types becoming more balanced

2757 million CERs indicated in PDDs from 6229 projects, but not all will be issued, and certainly not by end-2012

Estimated CER supply and its timing (millions)

	<i>Pre-2013</i>	<i>2013-2020</i>	<i>Total</i>
Point Carbon	1192	2284	3476
Barclays	1140	2784	3924
CDC Climat Research	1115	2907	4022

$\frac{2}{3}$ to $\frac{3}{4}$ of post-2012 supply expected to be eligible for use in the EU ETS

World Bank, State and Trends of the Carbon Market 2011

EU emissions trading system

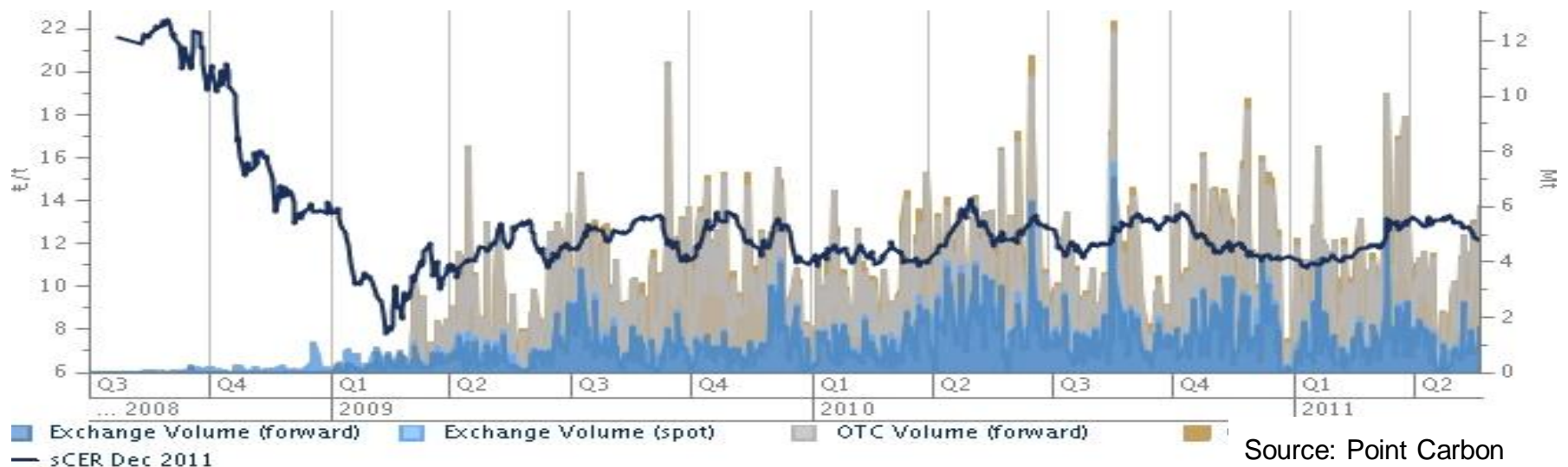
- CERs and ERUs are the only offsets eligible for compliance use
- Maximum offset demand for 2008-2012 - around 1 billion
- Afforestation, reforestation and nuclear CERs are ineligible
- Additional criteria for approving large hydro projects
- Inclusion of aviation from 2012

Japan voluntary trading system

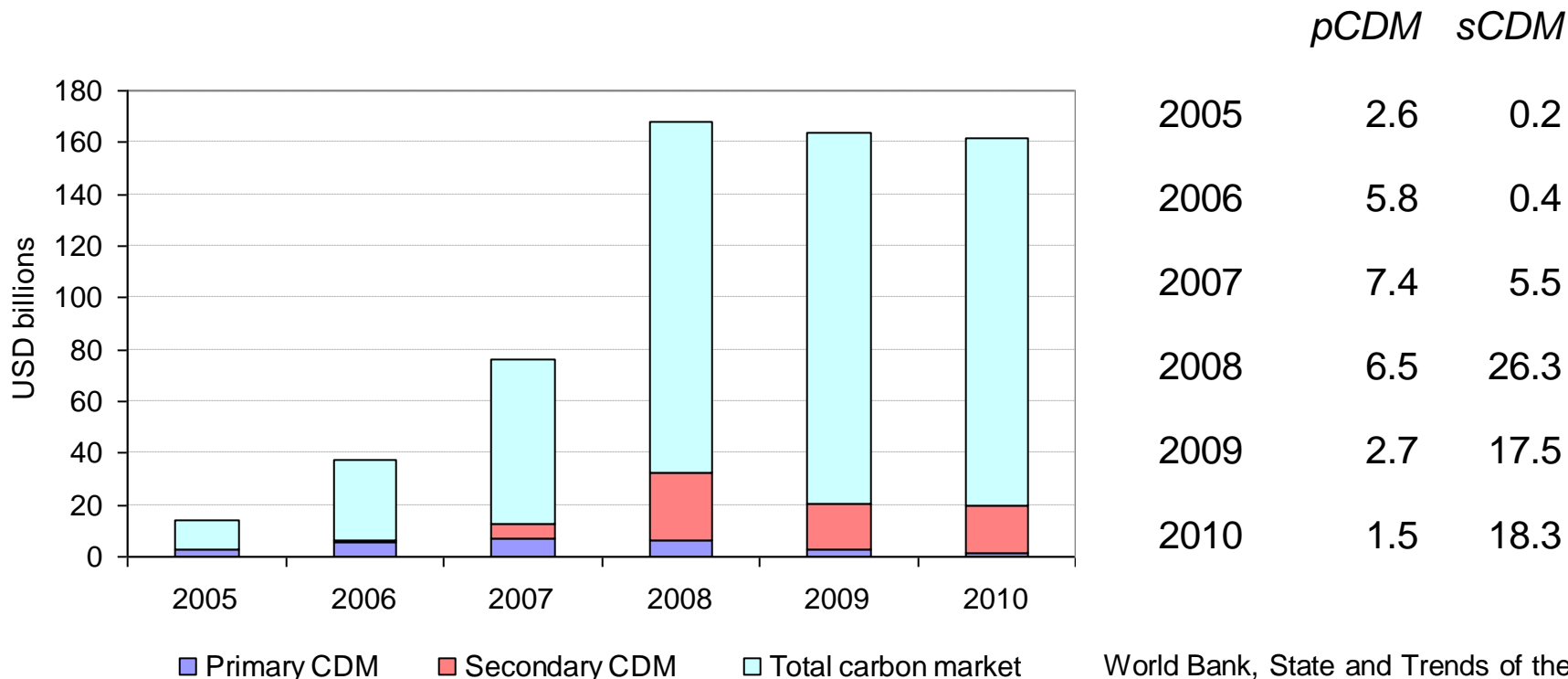
- Estimated offset demand for 2008-2012 - around 300 million
- Also may be met by AAUs

CER pricing remains low, but steady

- sCER prices in the €11-14 range over the past two years
- Linked to EU allowances prices, with discount of €2-4 (“spread”)
- Prices generally suppressed by recession and ample allowance supply, but maintained by ability to bank into EU ETS phase 3
- pCER prices historically in the €8-10 range, driven by project type, host country, project reputation, delivery risk, etc
- pCER premium for wind, prices lower for industrial gases and hydro



CDM market value steady or falling



World Bank, State and Trends of the Carbon Market 2011, USD billions



- Maturity reflected in evolving infrastructure, services and regulation
- But growing concerns on CDM continuation, demand levels, EU restrictions and market fragmentation
- AWG-LCA preparing proposals on new market mechanisms, based on criteria determined in Cancun, for possible decision at COP 17
- Undertaking by Parties to keep and build upon Kyoto mechanisms
- But uncertainty on when post-2012 agreement will be found and growing prospects of a “gap” between emission commitments

Overall offset demand likely to remain in the post-2012 period

EU	1750 – 2550
New Zealand	77 – 106
Australia	516 – 637
Japan	Up to 539
Switzerland	28 - 55
US + Canada	12-24

2.9 – 3.9 billion
over 2013-2020

World Bank, State and Trends
of the Carbon Market 2011



EU emissions trading system

- CERs (and ERUs) to remain eligible, if from projects registered before 2013 or hosted in LDCs (up to 37m CERs from 30 LDC projects currently registered, up to 135m from full LDC pipeline)
- CERs from industrial gas projects ineligible from 2013

Other EU sectors

- CERs eligible to be used up to 4% of emissions
- But only if hosted in LDCs

- Prospects for US federal legislation are thin (CERs would have been eligible under earlier proposals)
- Western Climate Initiative championed by California under AB32 (to start in 2012), but no plans for CER eligibility
- Some other WCI states and provinces are making progress - Washington, Oregon, British Columbia, Ontario, Quebec
- Regional Greenhouse Gas Initiative (RGGI) suffering over-allocation and vulnerable to state withdrawals

Other sources of post-2012 demand may pick up

Australia Proposed carbon price mechanism from 2012, initially fixed-price then transitioning into an ETS

Japan ETS component of the Basic Act is currently deferred but CERs still eligible in the voluntary ETS

New Zealand CERs remain eligible in an ETS that is currently undergoing its scheduled review

Elsewhere Brazil, Chile, China, India, Mexico and South Korea are considering or have market instruments in place, including domestic cap-and-trade systems

Domestic offsets

- Article 24a of the revised EU ETS Directive
- California under AB32
- Australia's proposed Carbon Farming Initiative

Bilateral offsets

- California, in particular for REDD+ offsets
- EU ETS provision for bilateral agreements
- Japanese bilateral programme

Others

- Reformulation of JI?
- Linking of REC/EEC trading?
- Regulatory recognition of “voluntary” standards?

- What information on market and policy developments is useful to provide context to the Board's work?
- What form and what frequency?
- How would such information be used?