

Agenda item 5d

Paragraph 56 of the annotated agenda

Market and policy developments

CDM EB 62

Marrakesh, Morocco, 11-15 July 2011



- 2011 MAP requested reports on developments in carbon market activities and related policies and negotiations, in particular by monitoring, analyzing and reporting on market and policy developments and raising issues requiring Board consideration
- Secretariat sought inputs and priorities at EB61
- Quarterly reports on market and policy developments requested by the Board
- Current presentation
 - a) Provides initial information in some areas
 - b) Outlines future reporting on market and policy developments

Requested information	Stated purpose
<p>Longer term planning issues</p> <ul style="list-style-type: none"> • Relationship to NAMAs and NAMAs crediting, potential impact on CDM • Emerging regulatory measures • Nature of the primary and secondary CDM markets and their participants • Demand and price projections, CER use • AWG developments on mechanisms • New mechanisms developments 	<ul style="list-style-type: none"> • Annual planning and priority-setting processes (business plan, MAP) • Decision-making informed by impacts • Ensuring CDM is “fit for the future” • Strategic messages to report to CMP
<p>Understand shorter term issues, in particular factors driving demand for CDM processing</p>	<ul style="list-style-type: none"> • Short term resource planning • Decision-making informed by impacts
<p>Comparison/benchmarking of CDM with other systems (eg methodologies, standardized baselines, additionality, processing timelines)</p>	<ul style="list-style-type: none"> • Learning from other programmes • Contributing to other programmes

- Improvement proposals reduced over the years, text is now clear on options
- Some proposals shifted to SBSTA work programmes (CCS, standardized baselines)
- Clear agreement that Kyoto mechanisms would be used in context of a 2nd Kyoto commitment period – limited discussions on continuity in a possible gap period

CDM and JI proposals

Nuclear in CDM/JI

Discount factors under the CDM

Other LULUCF activities?

Trading and accounting proposals

Carry-over and commitment period reserve rules

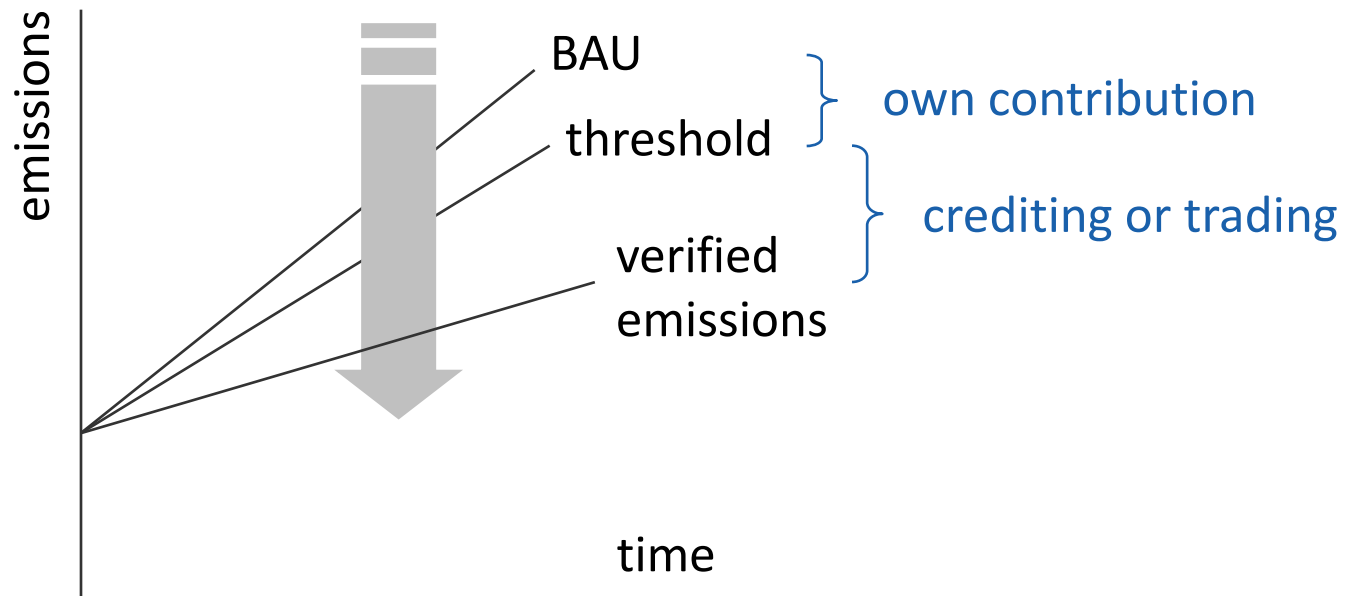
New market mechanisms and links to other trading

Share of proceeds for CDM, and JI/trading

Supplementarity in use of the mechanisms



- Greater scale: sectors, NAMAs, policies, city actions ...
- Different options on how they could work
- Verification at an aggregated level (but likely tiered)
- Greater political involvement, especially in baseline setting



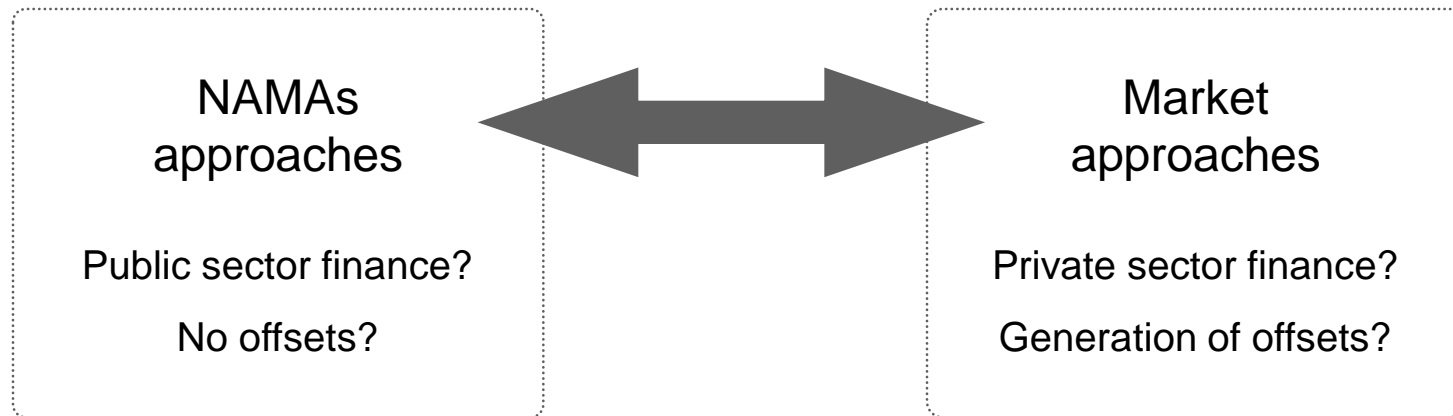
Cancun principles

- Complement NAMAs support
 - Environmental integrity
 - Developed country compliance
 - Voluntary participation
 - Broad segments of the economy
 - Net decrease and/or avoidance of global emissions
 - Good governance and market regulation
- Cancun undertook to maintain and build upon existing mechanisms
 - Emerging elements of a decision to be prepared by the AWG-LCA
 - a) New market mechanisms, with link to deeper targets being agreed
 - b) Possible launch of work on modalities and procedures

New mechanisms
established by the COP
directly under the UN



New mechanisms set up
by Parties under a
UNFCCC framework



Need for multiple funding sources and channels?

Need for a range of mechanisms to choose from,
knowing that treatment would differ (eg MRV, offsets)?

Will CDM or new market mechanisms contribute support to NAMAs?

How could offsets be attributed to the market portion of the finance provided?

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 tonnes
over 2013-2020**

World Bank, State and Trends of
the Carbon Market 2011

Ranges based on unconditional and conditional Copenhagen pledges, with known ETS proposals in developed countries

Non-EU estimates remain very speculative at this stage

Not expected that CDM or JI would be eligible to meet all estimated demand

Yes

No, maybe

EU ETS phase 3 (2013-2020)

Pre-2013 projects or new LDC projects

Industrial gas projects ineligible

Use by non-ETS sectors for LDC projects

Unsuccessful US federal cap-and-trade

Japanese “Basic Act” ETS (now deferred)
and current voluntary cap-and-trade

New Zealand cap-and-trade

Australian carbon pricing mechanism

California and other WCI: eg Washington,
Oregon, British Columbia, Ontario, Quebec

Regional Greenhouse Gas Initiative (RGGI)

Japanese bilateral programme

- Need to assess peaks in registration and issuance requests and integrate information into short/medium term planning by the secretariat
- Provide forecasts regularly to Board (not necessarily in market/policy context)
 - a) Based on improved quality of information from DOEs on planned submissions
 - b) Combine information with known policy drivers from emissions trading systems
 - c) Improve understanding of monitoring periods and time lags before submission

- Learning opportunities from a range of offset and certification systems
 - a) Additionality demonstration
 - b) Methodologies development, standardized baselines
 - c) Treatment of national policies
 - d) Development of standards and procedures
 - e) Processing tools and systems, timelines
 - f) Treatment of co-benefits
 - g) Institutions and governance
- General overview of issues could be undertaken, but detailed work should be coordinated and integrated with specific areas of policy development

- Information pertinent to the Board's functions and needs
- Regular information items (dashboard approach), including
 - a) Demand and price information, current and projected
 - b) Indicators of how CDM is being used and benefits it is bringing
 - c) Market events and trends
 - d) Regulatory developments relevant to the CDM and trading
 - e) UNFCCC negotiations on issues relevant to market mechanisms
- Specific thematic areas allowing in-depth analysis, for example
 - a) Relationship of CDM to other emerging instruments
 - b) Major market events and regulatory programmes
 - c) Nature of the primary and secondary CDM markets and their participants