

## Agenda item 2.2

Paragraph 7 of the annotated agenda

# Market and Policy development

**CDM EB 65**

Durban, South Africa, 21-25 November, 2011



# Purpose

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- 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.
  - Market & policy developments an increasingly important function for future of CDM.
  - This analysis
    - Main issue: KP mechanisms after 2012
    - The perspective from the negotiators' table
    - How markets react
    - Other factors influencing markets
    - New developments outside UNFCCC
    - Issues for EB to take note of
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## Continuation of CDM beyond CP1?

- The Kyoto Protocol art. 12 established CDM.
- Article 12 defines the purpose of CDM: To contribute to sustainable development in NAI countries, to contribute to the ultimate objective of the Convention, and to support AI parties to meet their reduction commitments under art 3.
- The KP text does not define how CDM will be affected in the absence of CP2.
- CDM is subject to guidance and authority of CMP (CMP takes decisions by consensus)

## Continuation of CDM beyond CP1?

- JI linked to AAU, linked to national mitigation commitments.

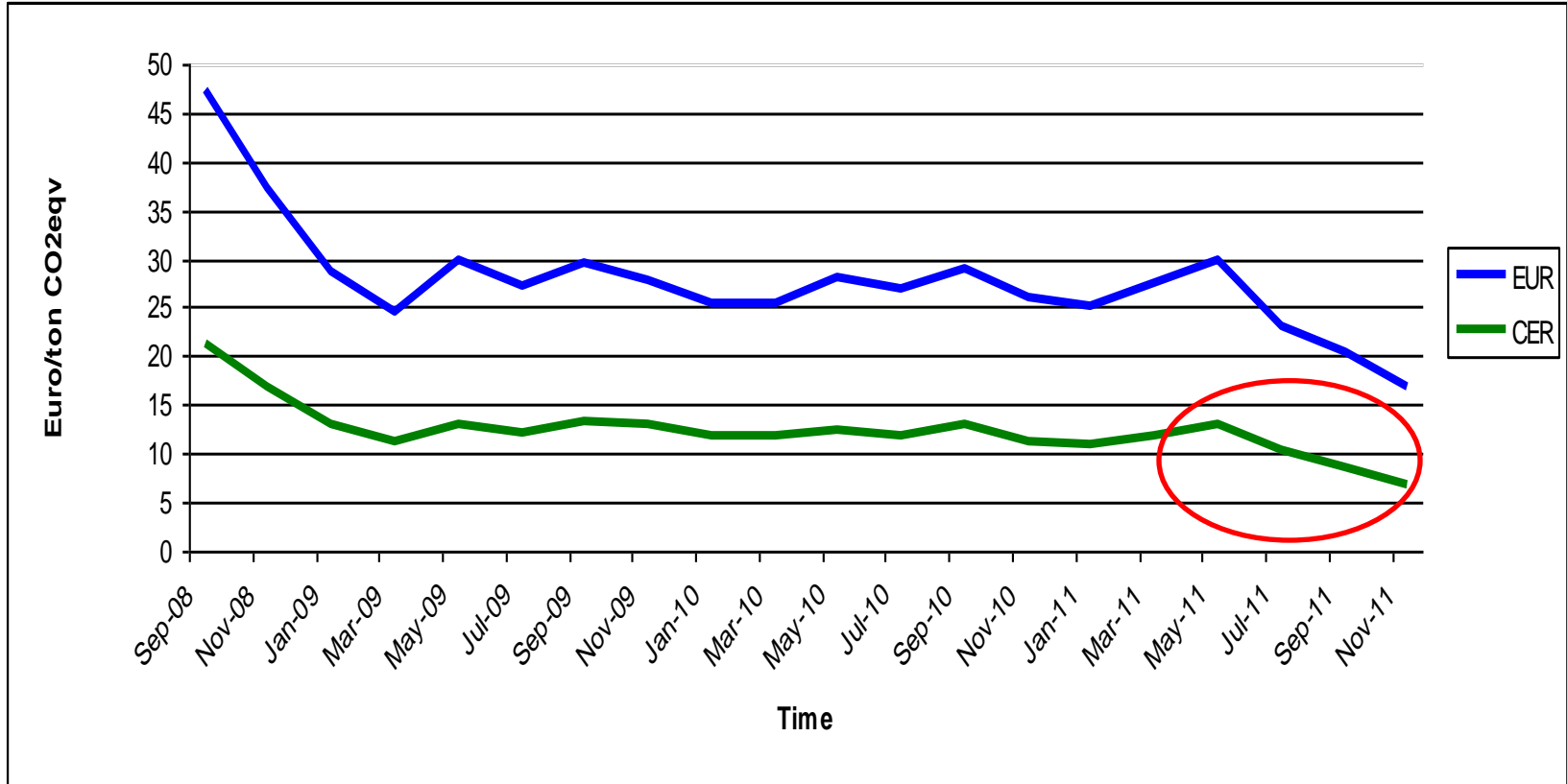


## Perspective from negotiator's table

### AWG-KP: Group on mechanisms

- Text very much represents status quo on most aspects
- Two options on continuation:
  - a) Continuation linked to continuation of KP
  - b) Continuation linked to ratification of CP2
- Negotiation positions:
  - a) Most AI parties in favor of continuing CDM even if no CP2
  - b) Many other parties makes continuation contingent on CP2
- Will need to be resolved as part of larger political deal.

# Market response



*CER and ERU prices*



# Market developments

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## Other Factors: Demand post 2012?

### EU-ETS

- EU-ETS (97% of carbon markets in 2010) will continue!
- ...but with restrictions on CER in EU-ETS phase 3:
  - No industrial gas projects
  - Only projects from LDCs registered after 2012

### California

- Carbon caps from 2013, covering 600 oil refineries and factories
- Target: 22 % reduction by 2020 compared to 1990: Covering 85% of emissions from 2015 (incl. transport), 8% of reductions eligible for offsetting (not CER) = ~221 million tonnes Co2 eqv 2012-2020.
- CCA currently trade at US\$ 18 (12 Euros)/t CO2 eqv



# Market developments

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## Australia

- Carbon mechanisms law passed (Nov 2011)
- Tax to take effect mid-2012 before moving to a carbon-trading scheme in mid 2015
- KP units fungible as of 2015
- Price initially set at A\$23 per tonne (until 2015)
- Aims to cut carbon pollution by 159 million tonnes by 2020 or by 5 percent based on year 2000 levels

## New Zealand

- NZ-ETS set to reach full coverage to be reached by 2015 (incl. agriculture), trading at 14 NZ\$ (8 Eur) per tonne
- NZ-ETS seeking to link with Aust-ETS by 2015



# Market developments

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## China

- Seven regional pilot schemes to be launched in 2013, possibly being replaced by a national market in 2015.
- Linked to national 5-year targets for energy carbon and energy intensity.
- May cover up to 40% of energy related GHG emissions
- National registry under development

## Japan:

- Does not intend to sign on to CP2
- Pursuing bilateral offset schemes with Asia and African countries; 90 Bilateral Offset Credit Mechanism projects under consideration
- Several domestic markets, incl Tokyo ETS: 300+ projects covering 220.000 t CO2 eqv at average price of US\$ 198/t CO2 eqv



# Market developments

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## South Korea

- Voluntary scheme established in 2009
- Plans to expand and make mandatory by 2015 to cover 60% of national GHG emissions. Target: 30% cut by 2020; ~400 million tons/year

## Quebec

- New scheme with first compliance period 2013-2014. Bilateral credits. (CER??)

## World Bank Partnership for Market Readiness (PMR)

- Provides up to US\$ 100 million grant funding for testing of new market instruments for both domestic and international markets.
- Confirmed participating countries include Brazil, Chile, China, Colombia, Costa Rica, India, Jordan, Mexico, Morocco, South Africa, Indonesia, Thailand, Turkey, Ukraine and Vietnam



# Market Developments

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## Demand:

- Carbon price follows macro economic trends:
  - Economic slowdown = reduced production = reduced energy consumption = reduced emissions = reduced demand for offsets
  - Economic risk response, e.g. risk for default of Greek economy affects carbon markets and prices.

## Supply:

- Increasing numbers of projects registered ~3.500 registered + ~3.400 in pipeline. Almost 750.000 CER issued. Concerns about “flooding” of markets
- Point Carbon estimate of 2008-2012 supply & demand:  
Surplus of credits: ~445 million tons CER/ERU



## Estimated Demand 2013-2020

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 2011)**

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
- CDM or JI would not be eligible to meet all demand

# Back to the negotiators table (AWG-LCA)

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## Panama Outcome:

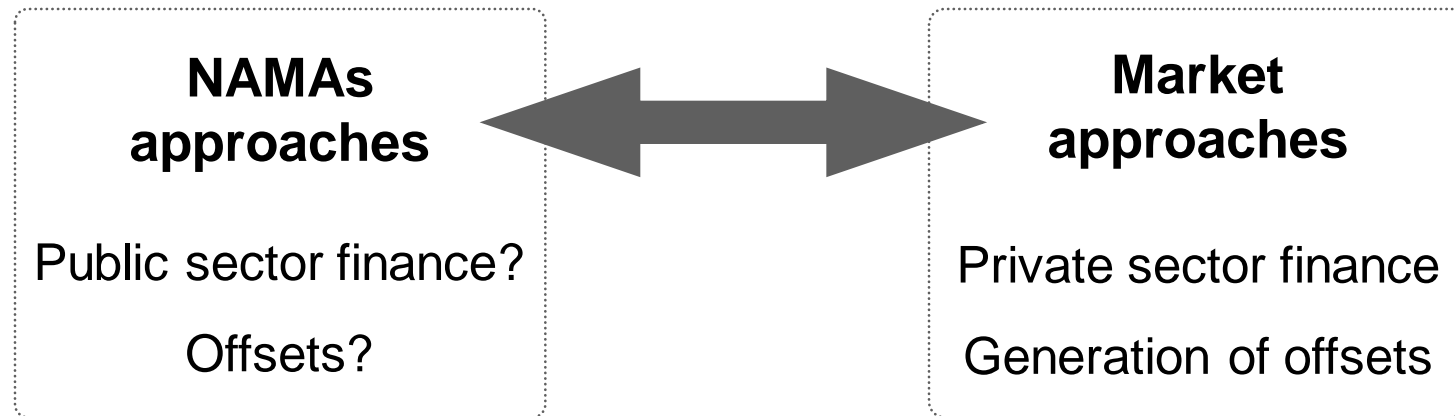
18 pages of text as “Parties compilation” on new mechanisms.

- Detailed set of principles and objectives of these mechanisms;
- A process for evaluating experiences with existing mechanisms
- Determination of possible conditions on the use of new mechanisms;
- Definition of a ‘framework’ for domestic mechanisms
- Definition of a new mechanism(s) at the international level;
- Measures to promote the readiness of Parties
- Agreement to maintain and build upon the existing mechanisms;
- Establishment of a work programme for 2012.



# Mechanisms and NAMA

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**Need for multiple funding sources and channels**

**“New mechs. Can be NAMA, and NAMA can be supported by mechanisms”**

**Will CDM or new market mechanisms contribute support to NAMAs?**

**Can offsets be attributed to the market portion of the finance provided?**

# Other items in the news

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## **China to up CO2 targets for heaviest emitters**

Deutsche **books** 310 mln euro charge for CO2 fraud

*GDP growth biggest threat to China CO2 targets: report*

CDM clean coal projects at risk after Meth Panel thumbs-down

## **Spain approves 3.4 million euros for World Bank fund**

EU steel output rises 4.3 pct in Jan-Sep

Ukraine gets cash to ready CO2 market

*World has 5 years to avoid dangerous climate change: IEA*

## **China to up CO2 targets for heaviest emitters**

**CEZ coal-based power output down 0.7 pct**

Barcap slashes CO2 outlook, market in “dark place”

WCI creates body to oversee carbon market

Poland to give away fewer EUAs in 2012

**Japan backs more studies on alternative CO2 offsets**

**Ireland's greenhouse gas emissions fall 1.1 pct in 2010**

**EEX to sell Lithuania's surplus EUAs**

*China seizes first voluntary forest carbon trade*

**UN chief says it's time to cough up climate cash**



- 1. Continuation of CDM itself.**
- 2. Demand for credits beyond 2012: with CP2? with any other form of emission reduction objectives/pledges? and with no pledges?**
  - Is demand driven by UNFCCC targets or domestic legislation?
- 3. Are new mechanisms and markets going to strengthen and expand, or compete with, the CER market?**
  - Will CER be eligible under new schemes?
  - Will other schemes offset credits be eligible under UNFCCC?
- 4. Major redrafting of the global carbon market map is likely to be done in 2012-2015.**

## **5. Impact on global markets of new domestic markets in non-AI countries:**

- Will CER supplies be consumed domestically?
- Will domestic schemes reduce/expand supply internationally?
- Time to rethink philosophy of CDM: Support South-south cooperation?

## **6. Future potential roles of CDM:**

- Lessons learned, e.g. price floors, additionality, baselines...
- Flagship in fragmented market?
- Take on role as authoritative source of MRV standards, baselines etc to make other mechanisms fungible with KP units and recognized under UNFCCC?



# Issues to take note of

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## Preparing for the future

- Business as usual: CDM formal continuation, demand, supply: Maintain and strengthen operation of CDM.
- New markets and mechanisms: How can CDM remain relevant and competitive in a fragmented markets?
- New UNFCCC mechanisms and NAMA: Building upon existing mechanisms. How can new mechanisms (and NAMA) be linked to CDM, in particular with regard to POA and Standardized baselines?
- Can CDM act as a harmonizing agent in a a carbon market with many unilateral bottom-up mechanisms at national levels?
- CDM Policy Dialogue

