

## Agenda item 4b

# Market and Policy development

**JISC 27**

Durban, South Africa, 24-25 November, 2011



# Purpose

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- To provide an update on current policy and market trends affecting the KP mechanisms:
  - Main issue: KP mechanisms after 2012
  - The perspective from the negotiators' table
  - How markets react
  - Other factors influencing markets
  - New developments outside UNFCCC
  - Issues to take note of



# Continuation of KP mechanisms

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## Continuation of JI beyond CP1?

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

## Continuation of CDM beyond CP1?

- 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)

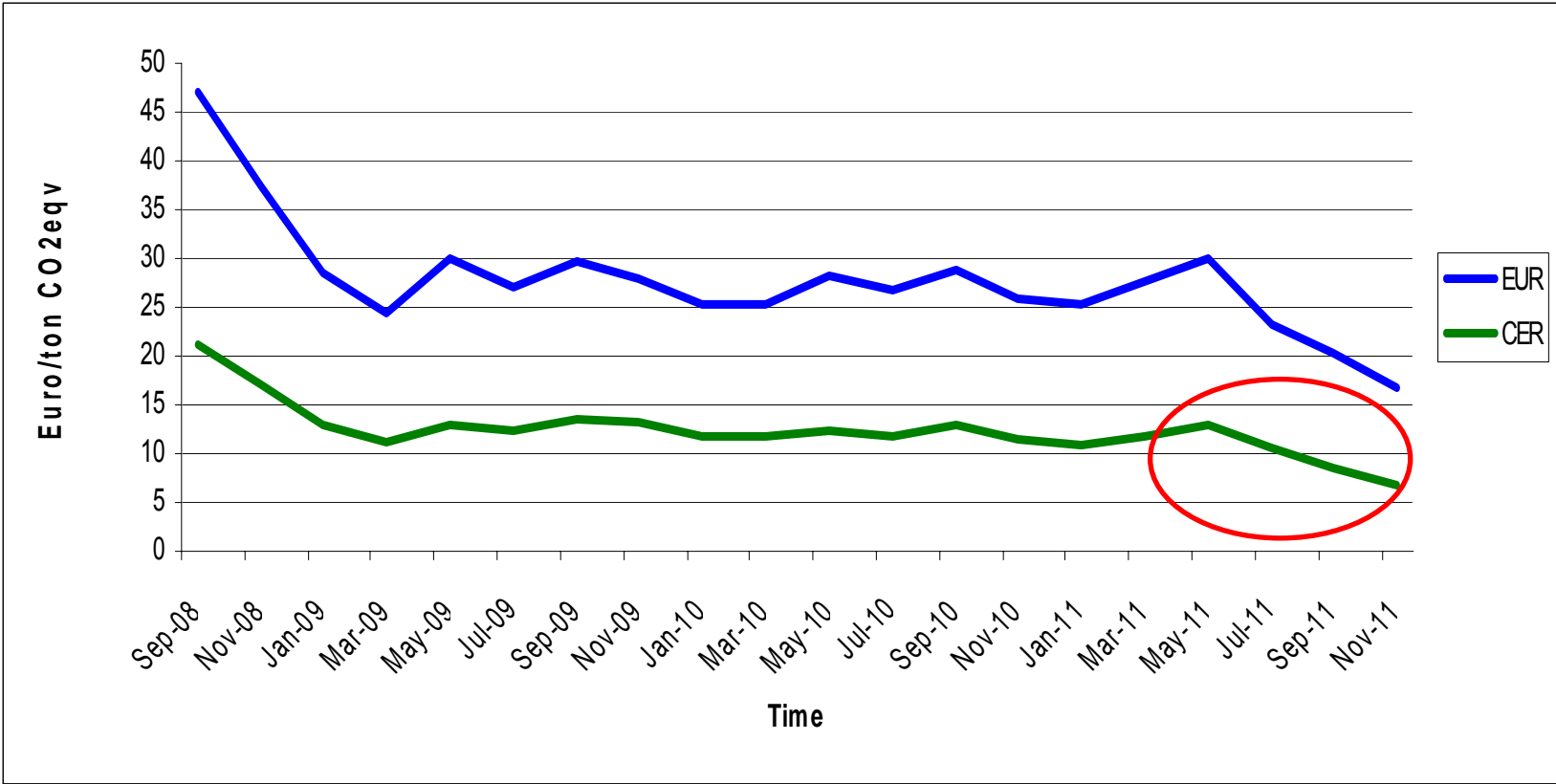


## Perspective from negotiator's table

### 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
  - For JI, only ERU's registered and issued before 2013

### 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.
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-  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 CDM 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



## JI developments

### Suspension of Ukraine & Romania

- Romania (300 million ERU surplus): Trading ban lifted in Q1 2012?
- Ukraine (2,5 billion ERU surplus): Track 1 credits banned until...? (92% from track 1). Has so far issued 57% of all ERU's issued.
- Combined effect of bans ~15-20 million ERU's delayed or not sold

### Russia speed up project approval

- Speed tracked approval of JI projects: 20 days processing time, any project type eligible. No cap.
- 21,8 million ERU issued to date. 70 new projects expected to apply for a total of 110 million ERU to be issued before 2013.

## 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:

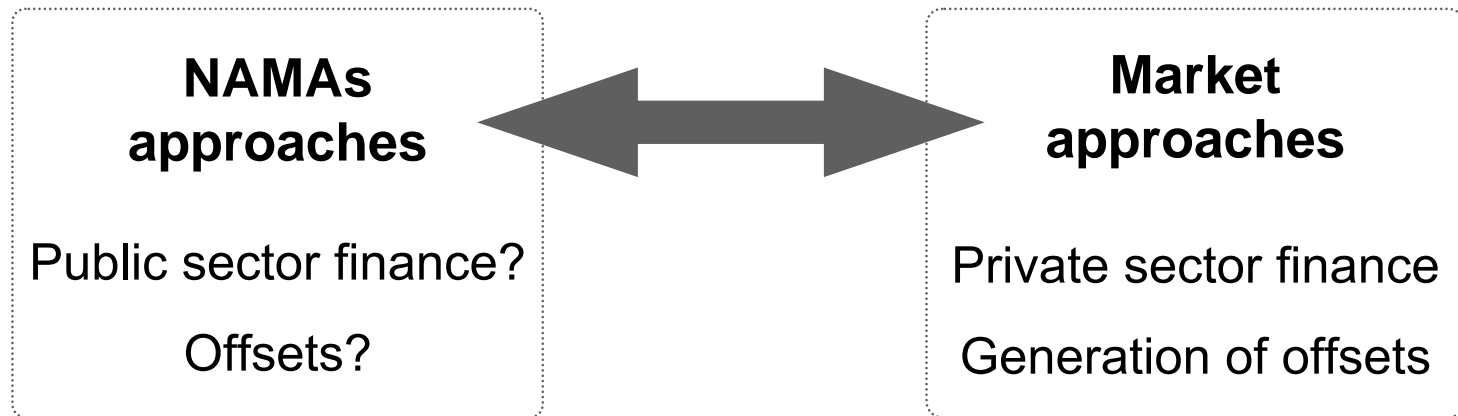
18 pages of text as “Parties compilation” on new mechanisms.

- 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**

Ukraine gets cash to ready CO2 market

EU steel output rises 4.3 pct in Jan-Sep

*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 and JI themselves.**
- 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 (ERU) 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 ERU/CER supplies be consumed domestically?
- Will domestic schemes reduce/expand supply internationally?
- Time to rethink philosophy of CDM/JI: Support South-south cooperation?

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

- 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: JI/CDM formal continuation, demand, supply: Maintain and strengthen operation of JI.
- New markets and mechanisms: How can CDM/JI 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 JI/CDM, in particular with regard to POA and Standardized baselines?
- Can CDM/JI act as a harmonizing agent in a a carbon market with many unilateral bottom-up mechanisms at national levels?
- CDM Policy Dialogue

