

The CDM and international carbon markets: within and beyond the UNFCCC

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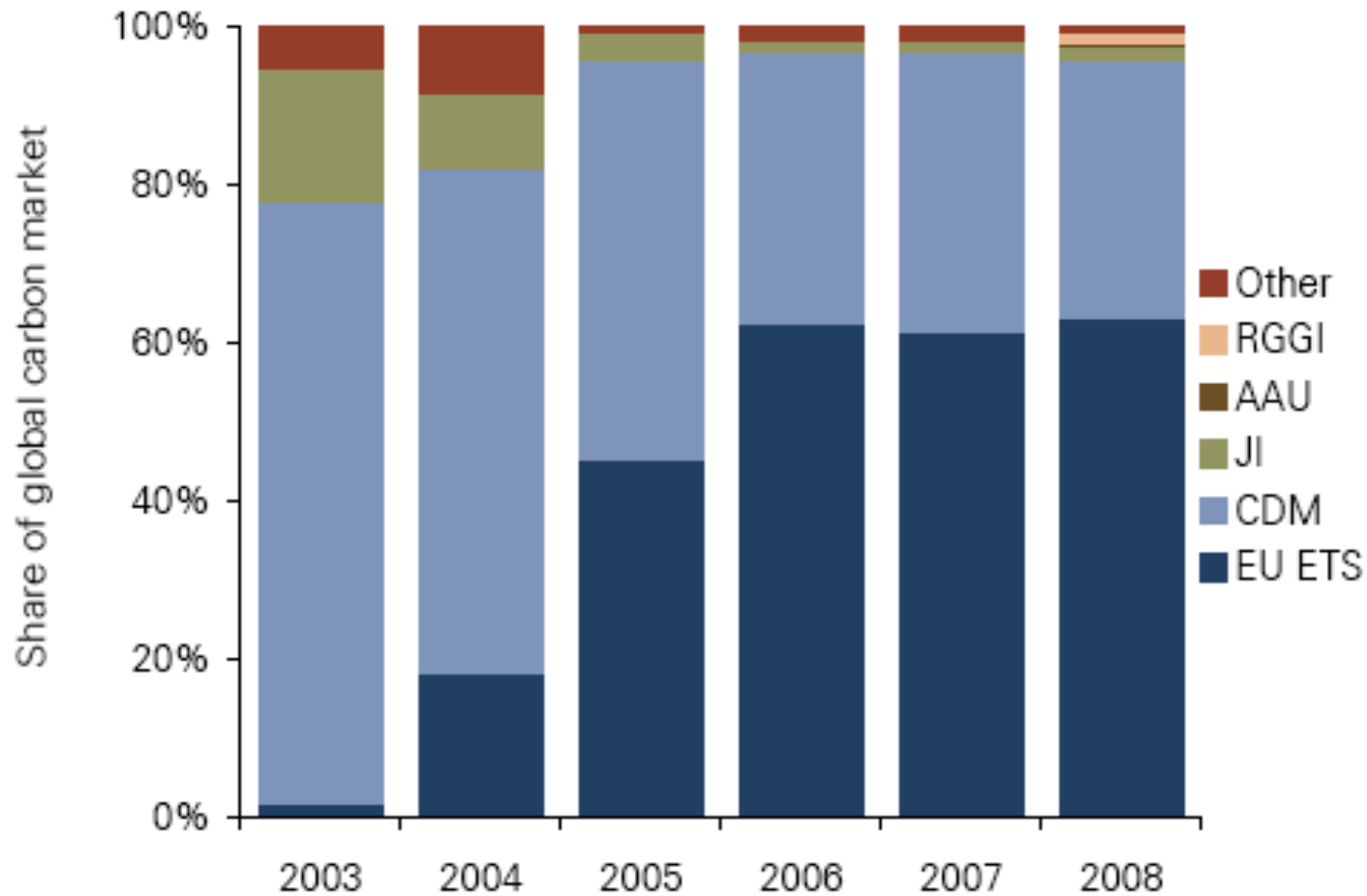
Research Question

**WHAT DOES OUR EXPERIENCE IN
INTERNATIONAL CARBON MARKETS
MEAN FOR THE “NEXT GENERATION”
OF SUSTAINABLE DEVELOPMENT?**

Firm response to carbon markets

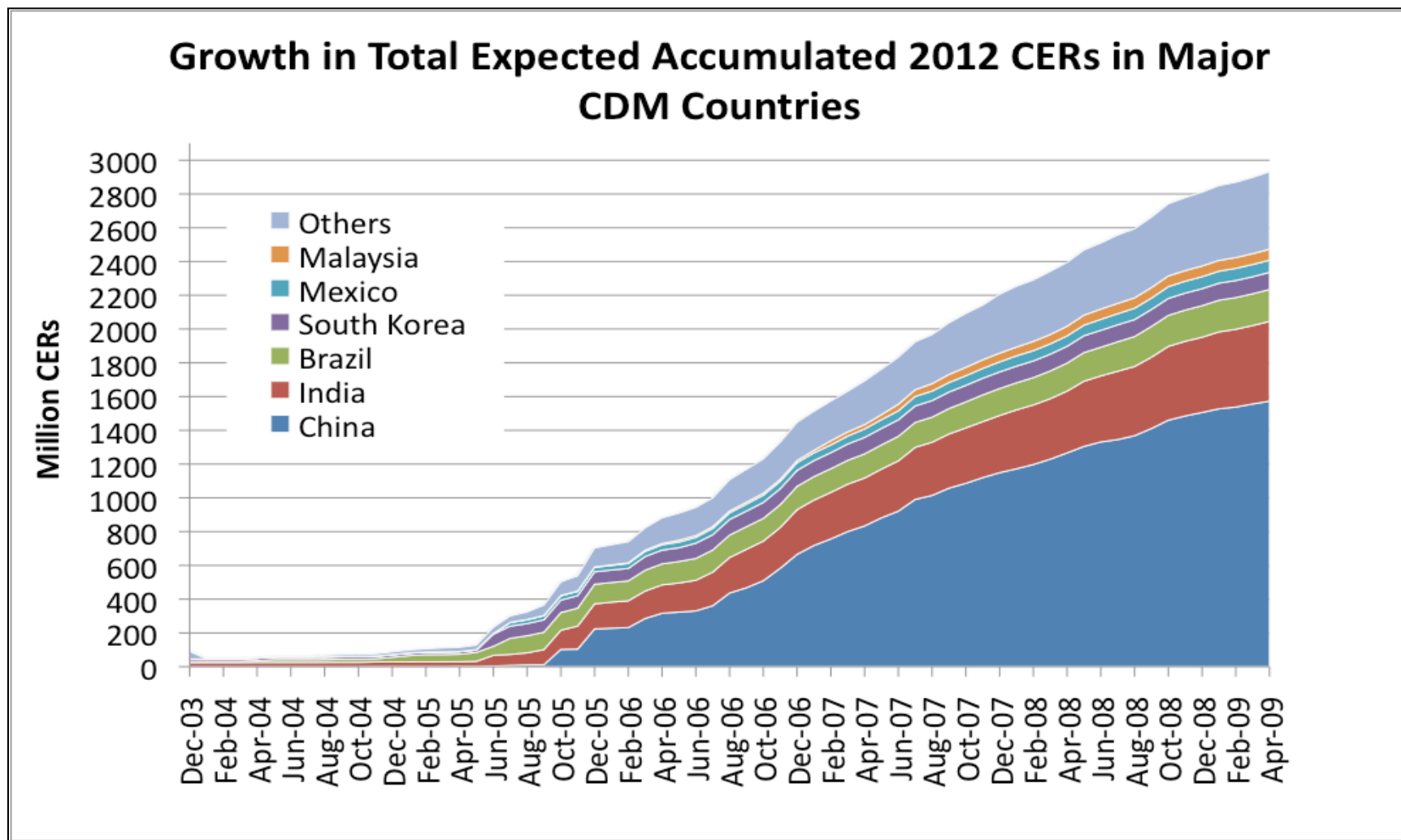
INTERNATIONAL CARBON MARKETS

Relative share of emissions trading policy platforms over time



Source: *Carbon 2009*, PointCarbon LLC

Growth in the total expected accumulated 2012 CERs by country, 2003-2009

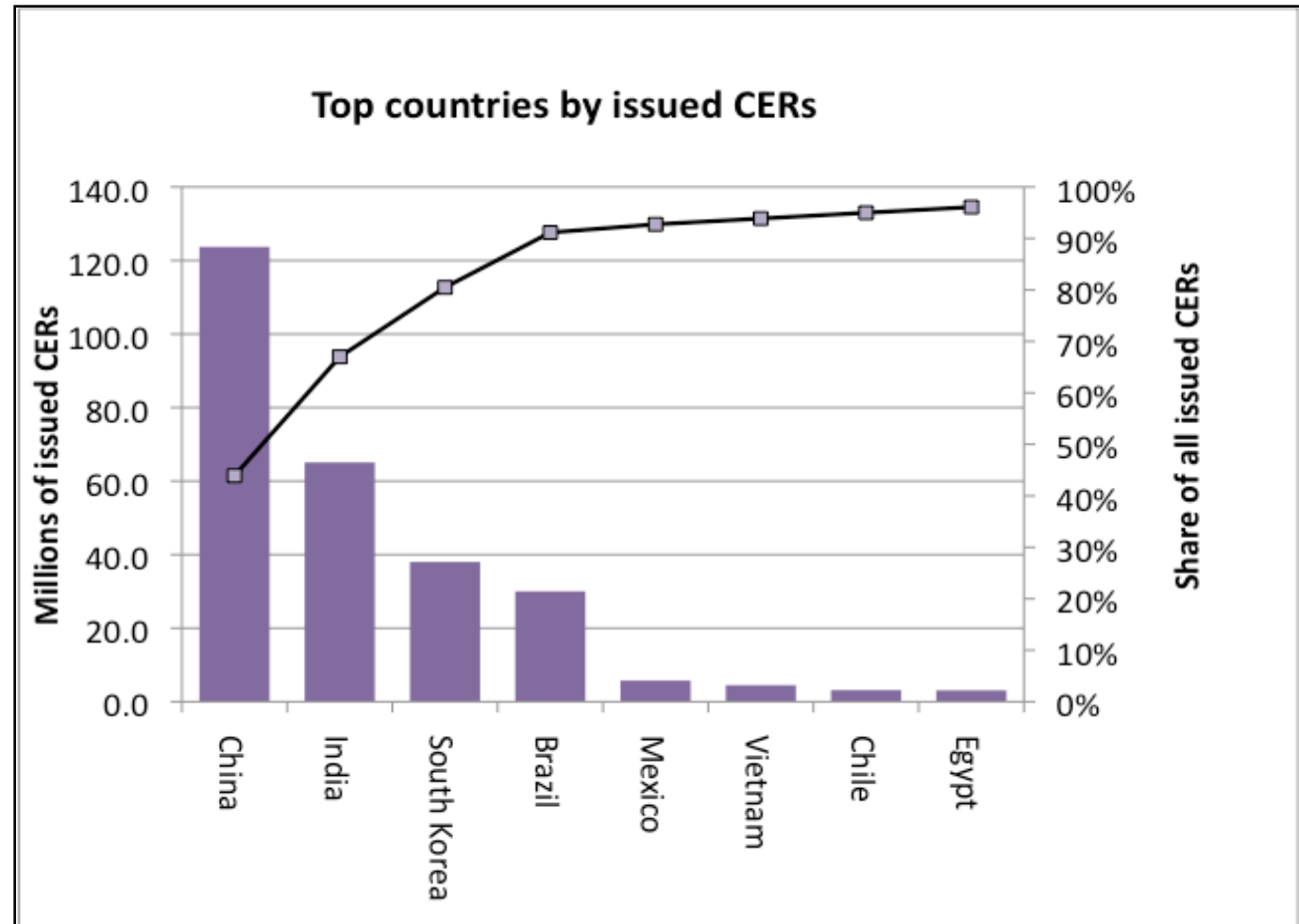


Source: Risø Centre CDM Pipeline May 2009

Top eight CDM countries by historical CER issuance

Issued CERs

- Top four account for 91%
- India = 23%
- Brazil = 11%



Policy Implications

Risks of regulatory jeopardy

- Policy risks at the national and international levels created obstacles to expansion
 - DNA in Brazil
 - “Arbitrary” judgments at EB level
 - Baseline jeopardy
- Post-2012 regime should seek to harmonize allowable projects across countries and minimize geographic and temporal risks

CDM and Carbon Markets

Successes and Failures

- CDM was not successful in
 - Creating a streamlined and business-friendly way to capture carbon revenue
 - Encouraging participation in some kinds of “desirable” energy investments
 - Reaching the least developed countries
- CDM was moderately successful in
 - Reducing carbon emissions in emerging economies
- CDM was hugely successful in
 - Encouraging low-carbon technical expertise
 - Encouraging firms to investigate low-carbon options

Policy Implications

post-2012 CDM Architecture

- firm managers and consultants voiced frustration with
 - growth in time to approval
 - the increased perception of unfairness
- Both these elements are likely to continue with any project-based system
 - streamlined international regulatory procedures
 - increased institutional capacity
 - Increased funding at the EB level
 - procedural changes at the national level

Cancun Negotiations

IMPLICATIONS FOR CDM NEGOTIATIONS AT COP-16



UNFCCC: CDM after 2012?

1. Kyoto Targets end in 2012 but CDM architecture remains
2. CER Demand is driven by EU, not by Kyoto Targets
3. EU has stated that some kinds of CERs will remain valid for ETS compliance through 2018
4. **Therefore, there will still be demand for CERs regardless of Cancun outcomes**



Current issues in CDM negotiations

Standardized Baselines

Inclusion of CCS

Reforestation of “forests in exhaustion”

Establishment of new HCFC-22 facilities

Possible changes to the limit for small-scale A/R



Current issues in CDM negotiations

Standardized baselines

where appropriate standardized baselines should be used on a national or sub-national level for specific project activities types in the determination of additionality and accounting of emissions reductions.

Implication: Standardized baselines would increase transparency for firms and reduce the sense of arbitrary application



Current issues in CDM negotiations

Standardized baselines: Advantages

- Improved regional and sectoral distribution
- Cost reduction
- Predictability
- Simplicity and lower barriers to entry
- Allows for continuous improvements



Current issues in CDM negotiations

Standardized baselines: Concerns

- Inaccurate setting of baseline: Under-crediting or Over-crediting
- Choosing winners: Loss of market incentives for new applications
- Orderly process vs. entrepreneurialism of project-based CDM



Current issues in CDM negotiations

Improving regional distribution and access

EB to establish simplified modalities for demonstrating additionality for certain project activity types (initially up to 5 MW or 20 GWh/year for RE/EE); permit postponed payment of registration fee for certain projects; EB to promote upfront financing for validation, verification and certification of these activities hosted in parties with < 10 projects.

Implication: Will help bring more SMEs into low-carbon activities



Current issues in CDM negotiations

Co-benefits

requests the EB to implement measures in the registration and ongoing assessment of project activities to enhance the visibility of project's co-benefits.

Implication: This could be a key provision for many investors who view the strict carbon additionality criterion as arbitrary



UNFCCC

1. Reduce regulatory uncertainty at EB level
2. Project-based CDM has benefits for capacity building
3. Sectoral baselines can increase overall environmental incentives



Carbon Markets

LOOKING BEYOND THE UNFCCC



The world beyond the FCCC

- All countries: Other UN-based negotiations
 - Rio+20
- Key emitters
 - Major economies forum
 - G20
- Coalitions of the willing
 - Bilateral
 - Regional approaches such as APEC, GCC
 - Other: Asia Pacific Partnership, Clean Energy Ministerial
- Domestic policies coordinated at international level?

How can low-carbon investment inform the Rio+20 vision?

- Elements of Sustainable Development for the 21st century
 - Green growth
 - Emerging economies as leaders
 - Driven by region-specific innovations
 - project-based CDM a guide as to w



Challenge for Leaders and Business

- What is the 21st Century “re-vision” of sustainable development?
- What does Brazil bring to this vision?
 - Nation?
 - Industry?
 - Carbon markets expertise?
- What do the other major emerging economies bring to this vision?
 - India
 - China
 - Indonesia
 - South Africa
 - South Korea
- How will they partner with EU, US, Japan, Australia, Gulf States?
- How can this encourage south-south technology development ?
- **Can a high-profile statement of principles be articulated that guides discussions over the coming years?**

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