



# A Status of Global Carbon Markets and Post-2012 Negotiations

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ACP MEAs

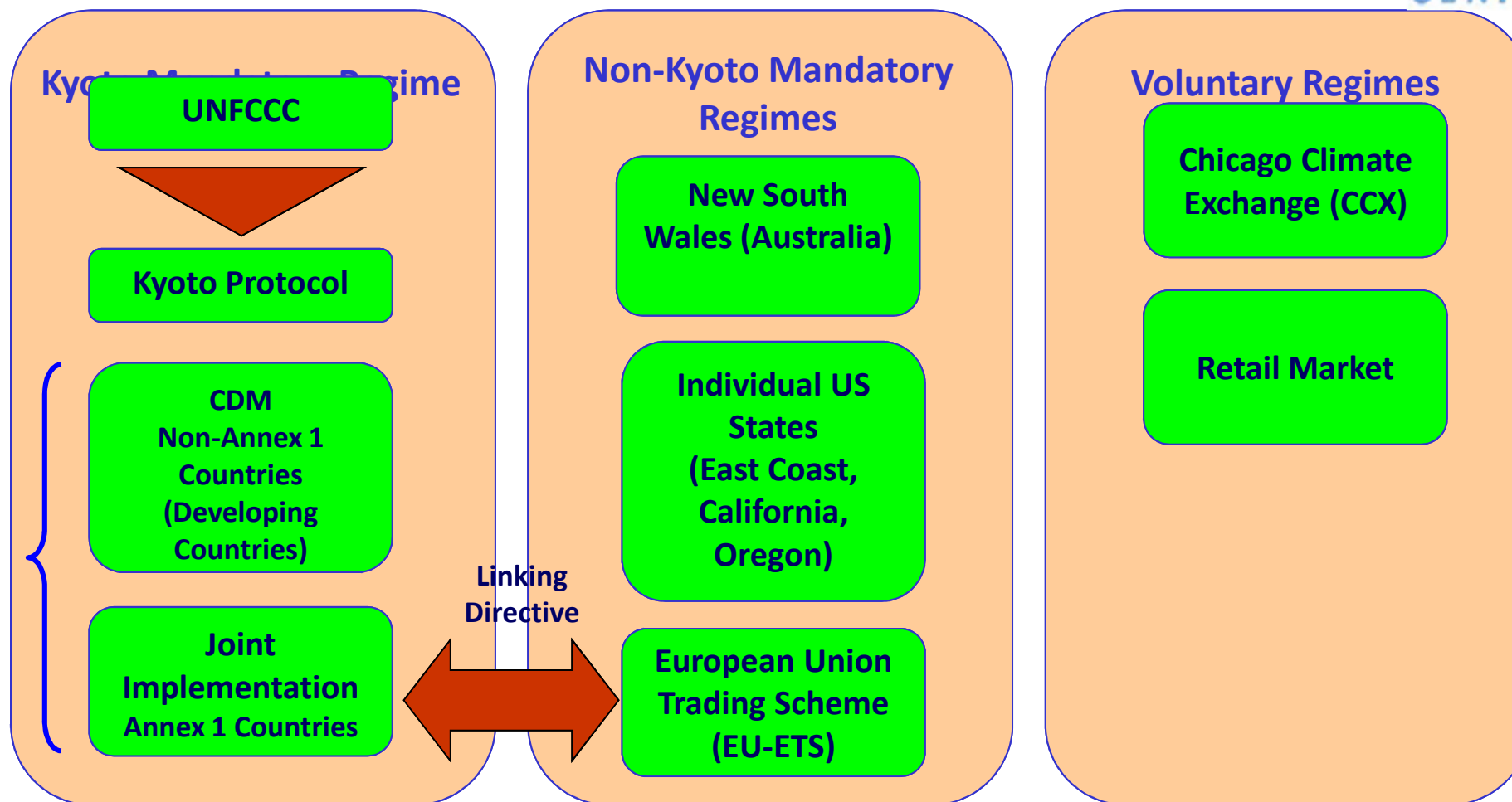


# Outline



- The global carbon markets
- CDM
- Climate negotiations for a post-2012 agreement

# There are over 45 carbon markets – but 3 principal regimes



Source: Robert Kelly, UNDP, March 2008



# Global Carbon Market

- fragmented market
- **Allowance market** (cap and trade system)
  - Emission allowances are defined by regulations at the international, national, regional or firm level - Kyoto-ET, EU-ETS, Domestic: UK, Japan, Canada, Korea. Firms: BP, Shell
  - Linkage between EU ETS and project-based mechanisms

## **Project-based** (baseline and credit system)

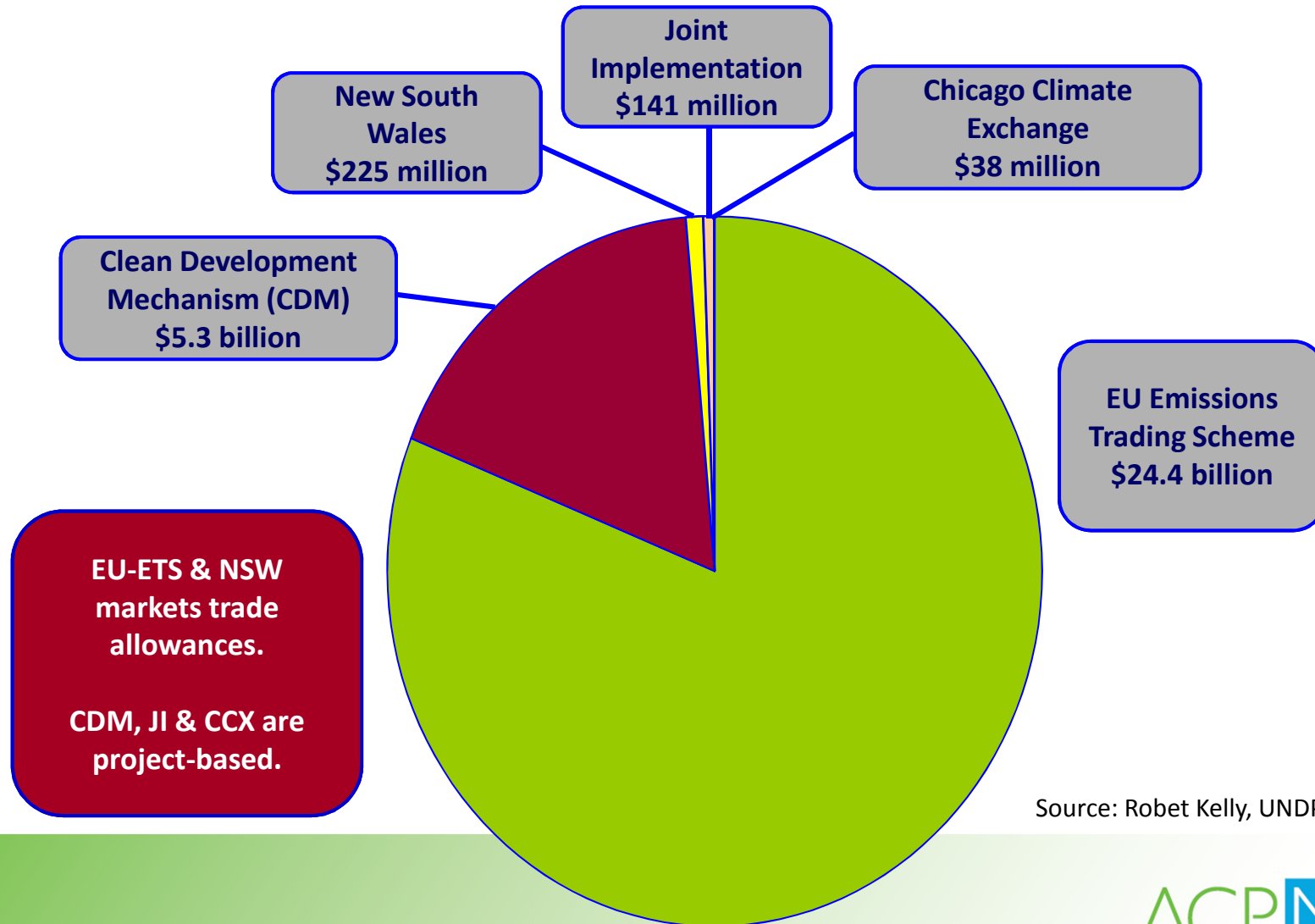
- Emission reductions are created and traded through a given project or activity (JI and CDM)

## **Voluntary market**

- Individuals and companies account and trade their greenhouse gas emissions on a voluntary basis (carbon compensation and travel compensation schemes)
- Several companies expressed interest in buying project-based credits (CERs and ERUs)

Markets are likely to emerge over time as agreement widens

# The EU Emissions Trading Scheme dominates the market



Source: Robert Kelly, UNDP, March 2008



## Clean Development Mechanism (CDM)



# CDM Basics



**CDM allows Annex I countries meet part of their emission reduction requirements for first commitment period 2008-2012 at lower costs in non-Annex I countries than could be done domestically.**

**Annex I countries are allowed to acquire Certified Emission Reductions (CERs) by implementing GHG mitigating CDM projects in non-Annex I countries.**

**Selling CERs is an additional stream of cash inflow to the project, which improves project economics.**

**ODA (Official Development Assistance) funds can not be used in CDM investments.**

**CDM projects shall support sustainable development in the host country**

CDM is considered one of the major achievements of Kyoto



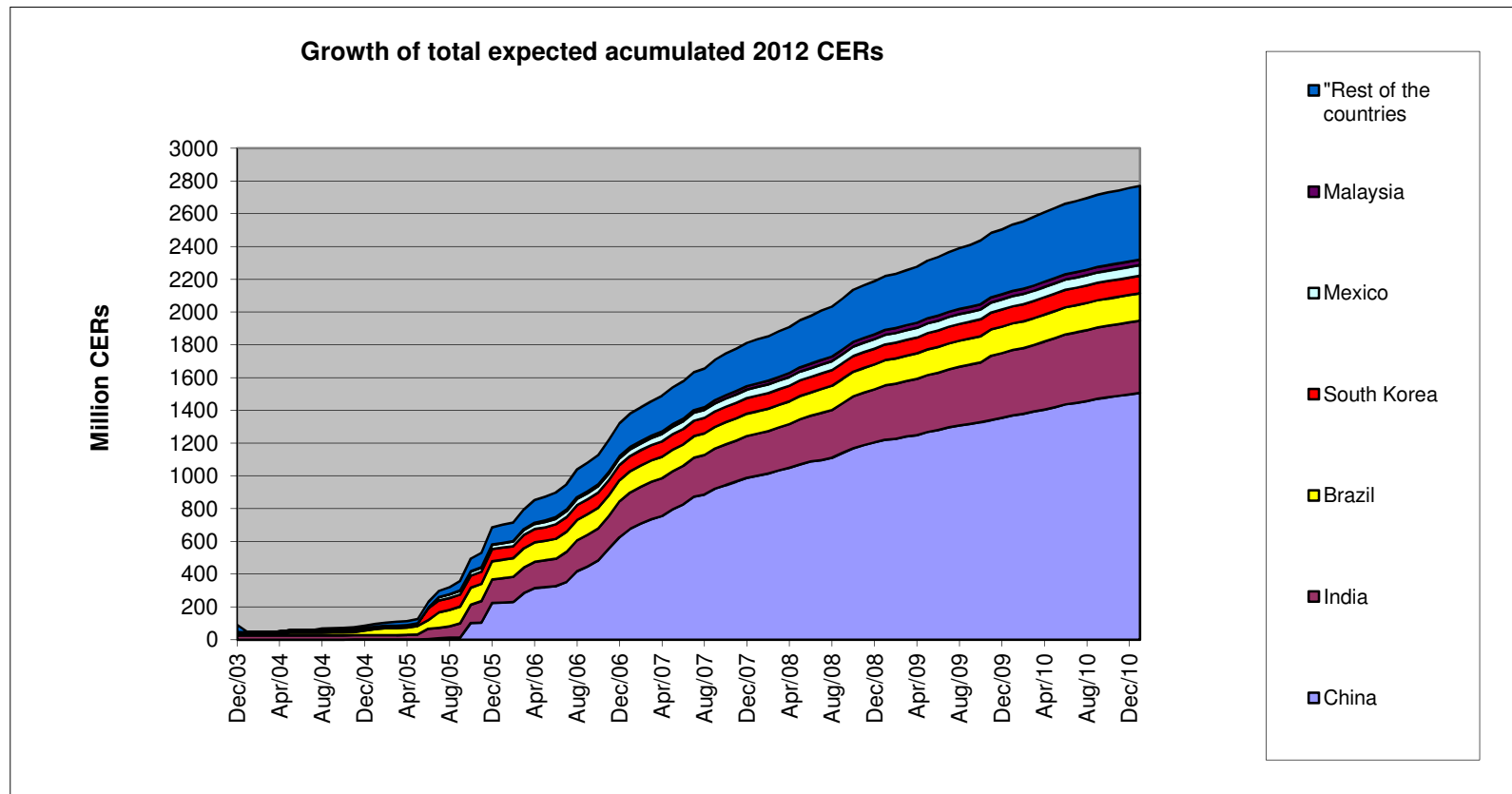
# Number of CDM projects

Status of CDM projects	Number
<b>At validation</b>	<b>2863</b>
Request for registration	64
Request for review	155
Correction requested	4
Under review	0
<b>Total in the process of registration</b>	<b>223</b>
Withdrawn	52
Rejected by EB	181
Validation negative by DOE	172
Validation terminated by DOE	829
Registered, no issuance of CERs	1844
Registered. CER issued	942
<b>Total registered</b>	<b>2786</b>
Total number of projects (incl. rejected & withdrawn)	7106

Source: UNEP Risoe Centre CDM Pipeline dated 1 February 2011



# Host countries of CDM projects



Source: UNEP Risoe Centre CDM Pipeline dated 1 February 2011



## CDM project examples



### Kuyasa, Cape Town, South Africa

- low-income housing retrofit in 2309 RDP houses
- Install SWH, insulated ceilings, and CFL lighting
- first registered SA project
- first Gold Standard project in housing sectors



### Proposal to upscale to a programmatic CDM project:

- VISION: A clearing house which enables and incentivises access to financing for clean energy services in all low income housing in South Africa
- MISSION: To establish a Facility which 1) administers a CDM programme, and 2) leverages and manages access to the additional upfront financing required for the incremental capital costs of sustainable energy interventions in low income housing

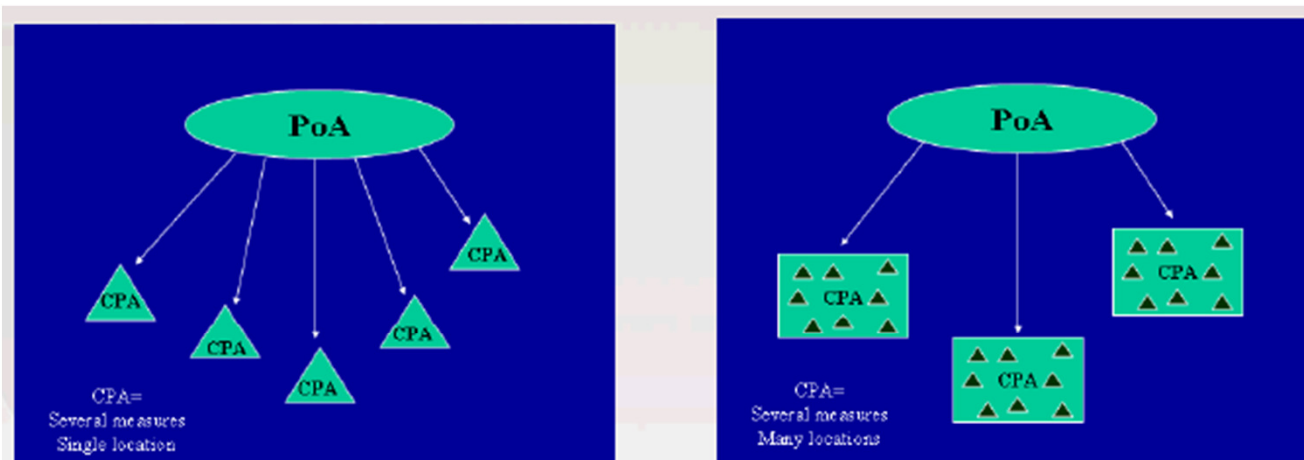


# Programmatic CDM projects

**A Programme of Activities (PoA) is:**

- Voluntary action
- Implementing a policy, measure or stated goal
- Coordinated by a public or private entity
- Made up of CDM Programme Activities (CPA)

Multiple CPAs can be included under a PoA at the time of registration and additional CPAs can be added at any point in the life of the PoA





## First PoA registration – CUIDEMOS (smart use of energy), Mexico



- The project seeks to reduce GHG emissions through free distribution and installation and installation of 30 million energy-saving light bulbs throughout Mexico.
- Change from Incandescent lamps to Compact Fluorescent Lamps (CFL)
- PoA lifetime 31 July 2009 – 30 July 2037  
Crediting Period 31 July 2009 – 30 July 2016





# CDM Challenges



Complex CDM Modalities & Procedures:

- Transaction cost to hire service providers.

Heavy institutional requirements for project cycle (DNA, DOE Validation, DOE Verification, etc.).

Knowledge gap between CER buyers & sellers.

Limited access to finance by potential developers:

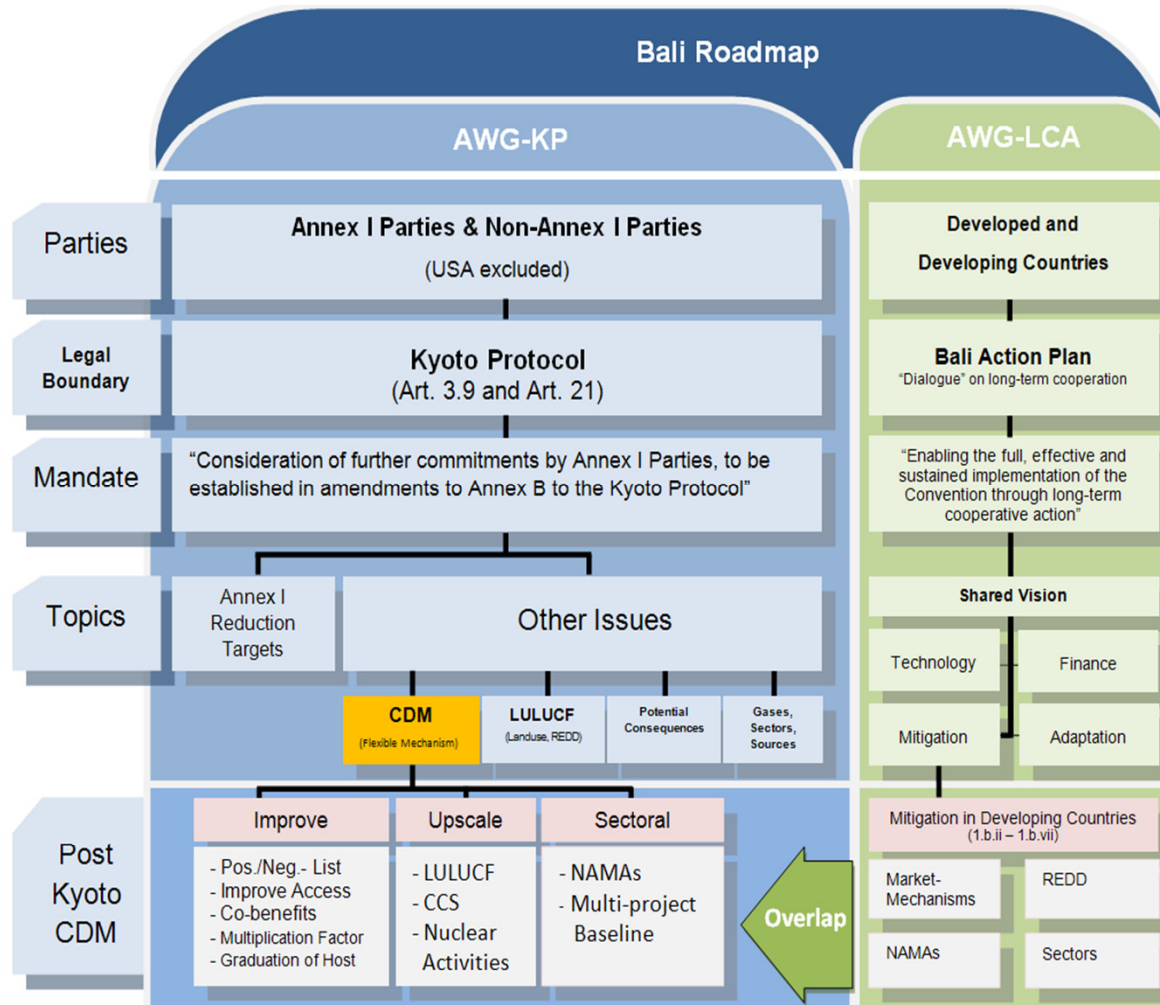
- Financial intermediaries lack of knowledge about CDM.
- Lack of trained national CDM consultants.
- Investment climate in host countries (e.g. SS Africa).
- Limited budgets for operations of DNAs.
- Need for national entities capable of bundling projects.

CDM is undergoing gradual reforms and will be part of a new deal



## Post-2012 negotiations

# The post-2012 negotiation structure and agenda





## Outcomes of COP-16 – overview



Progress made in the following areas:

- trust was restored in the UNFCCC-process
- Copenhagen pledges for targets, actions and finance (US\$ 30bn 2010-12 & 100bn/pa by 2020) now 'anchored' in the Cancun Agreements
- Technology mechanism
- REDD+
- Registry for NAMAs, procedures for MRV/ICA
- Green Climate Fund





# COP-16 outcomes - overview



## Issues unresolved:

- The future of the Kyoto Protocol disputed
- Legal form of BAP outcome undecided
- Developed country pledges are made bottom up, i.e. voluntary
- Gap between pledges and science defined needs:  
<http://www.unep.org/climatepledges/>
- Sources of finance for Green Climate Fund are unclear



# The future of the CDM

## Immediate improvements – guidance to CDM:

- PoA additionality rules and simplified approaches
- Increased transparency of CDM Executive Board decisions
- Appeal mechanism to be explored for next session
- A number of DoEs approved for sectoral MRV
- Simplified modalities for small scale RE & EE projects
- Standardized baselines to be developed especially for applications in LDCs and SIDs
- Improved regional distribution, including capacity building and making operational a new loan scheme for projects in countries with less than 10 registered projects.



# The future of the CDM

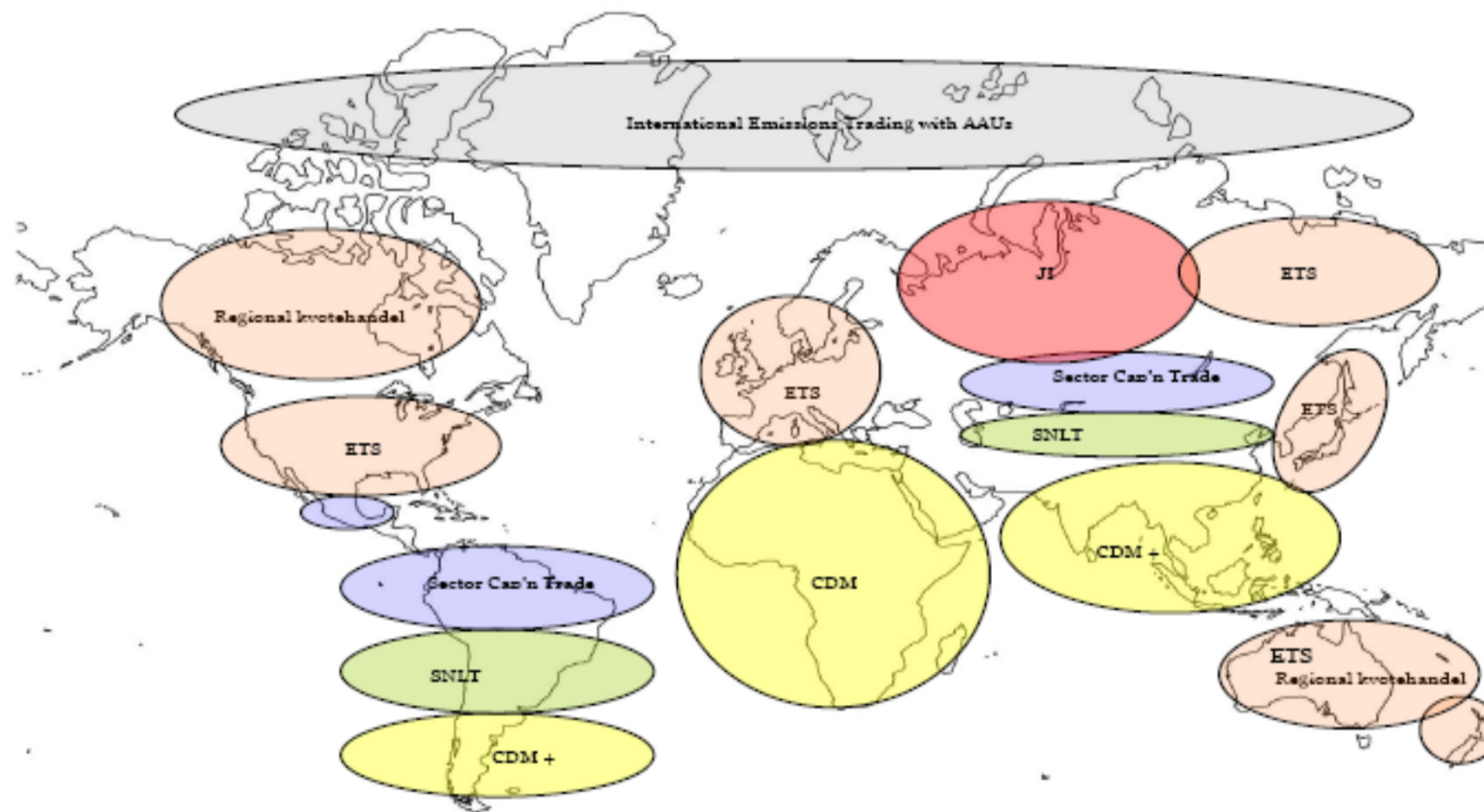
## KP outcomes:

- Recognition of the IPCC AR4th range of emission reductions by 25-40% below 1990 levels by 2020 and the call to Annex I Parties to raise the level of ambition with their pledges to meet this range
- Flexible mechanisms shall continue to be available
- CCS accepted as CDM activity provided issues are resolved

## EU market influence:

- Elimination of project-based CDM for major developing countries in key internationally competitive sectors
- CDM will remain an option for less developed countries and some smaller or less competitive sectors
- CDM investments will also be affected by restrictions imposed in domestic trading systems (eg. EU proposal to restrict use of credits from industrial gas projects)

## Differentiated global carbon markets



Source: Marie Christiansen, Ministry of Climate and Energy, Denmark, 2009



# Thank you!!

# UNEP RISØ CENTRE



**More information:**  
<http://uneprisoe.org>  
<http://cd4cdm.org>  
<http://cdmbazaar.net>  
<http://cdmpipeline.org>