

***A proposal for flexible mechanisms to
support a new climate change regime:
The Clean Development Mechanism and
beyond***

Introduction and key messages

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CEPS, Brussels, 27 October 2009

Outline

Introduction

Key messages

Recommendation

Membership and aim of Task Force

- Multi-stakeholders task force
- To take stock of existing flexible mechanisms
- Assess proposals for new mechanisms

Timing of the CEPS Task Force

- The EU context
 - The energy and climate packet
- UNFCCC negotiations on a future climate change regime
 - Focus on COP15/MOP5 in Copenhagen
 - Split between Parties
 - Mechanism will play central role
- Financial crisis and post-2012 uncertainty

CEPS Task Force meetings

Several meetings from Nov 2008 to May 2009

- 1st meeting (Nov 2008)
 - Lessons from the CDM; the need for moving beyond
- 2nd meeting (Jan 2009)
 - Outcomes of COP14/CMP4
 - EU energy & climate package; carbon market; sectoral approaches; the Green Investment Scheme (GIS)

CEPS Task Force meetings (con't)

- 3rd meeting (Feb 2009)
 - US perspective; technology dissemination; financial architecture; sectoral crediting; carbon market
- 4th meeting (May 2009)
 - discussion on key messages and recommendations
- Side-event (Bonn, June 2009)
 - panel discussion on different perspectives from stakeholders
- Additional inputs
 - JI, sectoral trading, transition etc

Scope and style of the Task Force report

- Not technical but **policy-oriented**
Recommendation based on analysis
- Not comprehensive but **focused**
- Attempt to address UN and EU discussions

UN and EU discussions: Key documents

- UN
 - **Bali Action Plan** 2(b)(v) (Dec 2007-)
 - 'Other issues', AWG-KP
 - **IPCC** 4th Assessment Report
- EU
 - EU energy and climate package
 - Copenhagen paper (Jan 2009)
 - Finance paper (Sept 2009)

UN discussions: Driving forces

Why flexible mechanisms? What frames discussion?

- Tool to reduce compliance costs of developed countries' emission reductions
- Tool to enhance mitigation action
- Vehicle for sustainable development
- Success of the CDM & its role in carbon market, need for a CDM reform, e.g. governance
- New mechanism options to address untapped opportunities in developing countries and to raise needed revenue

EU discussion: Driving forces

Why flexible mechanisms? What frames discussion?

- 2°C objective
- 20/20/20 in the EU package
- ✓ -20 to 30% GHG emission cut by 2020
- Call for advanced developing countries to take on commitments
- ✓ -15 to 30% GHG emissions below BAU
- Scale up finance → carbon market & public finance

UN discussion: Objectives of mechanisms

What is the objective of a flexible mechanism?

- GHG emission reductions
- Sustainable development
- Cost efficiency
- Enhancing investment
- A role in carbon market
- Technology transfer
- Equity

EU discussion: Objectives of mechanisms

What is the objective of a flexible mechanism?

- GHG emission reductions
- Cost efficiency
- Scale up finance
- A role in carbon market
- Enhancing investment
- Carbon leakage
- Competitiveness and a level-playing field

Task Force coverage of topics

TF discussed

- CDM & JI
- Sectoral crediting

TF did not discuss

- *NAMAs, SusDev-PaMs...*
- *Broader notions of 'sectors' e.g. forestry (LULUCF, REDD), transport...*

Indirectly domestic cap-and-trade

Focus of the CEPS Task Force report

- **4** motivations: commitments; market; technology; financing
- Lessons from **3** existing mechanisms: CDM, JI, AAUs trading & GIS
- **4** new mechanism options: reformed CDM, reformed JI, sectoral crediting, sectoral trading
- **3** objectives of mechanisms: environmental integrity; enhanced investment; institutional strength

Key message 1: Different motivations

- 4 motivations: emission reductions; market; technology; financing
- New mechanisms could
- ✓ Encourage countries to take on stringent commitments
- ✓ Catalyse re-directing financial and investment flows
- Call for a move from pure-offsetting to crediting
- Developing countries' requirements

Key message 2: Supply and demand

- The impact of flexible mechanisms on GHG emission reductions depends on:
 - ✓ The balance of supply and demand in the market
 - ✓ The price level where they are balanced
- A balanced supply and demand & Annex I deeper commitments will send a robust price signal to investors
- A major imbalance in supply → a price collapse

Key message 3: Lessons from existing mechanisms (1)

Most of the lessons come from taking stock of the CDM

- Lessons from the CDM
 - ✓ Benefits
 - ✓ Areas for discussion
 - ✓ Areas for improvement

Key message 3: Lessons from existing mechanisms (2)

- Lessons from JI
 - ✓ Benefits
 - ✓ Areas for discussion
 - ✓ Areas for improvement
- Lessons from AAU trading/ the GIS
 - ✓ Critical issues

Key message 4: New mechanisms (1)

Advancing climate objectives: real global emission reductions & specific objectives

- Reformed CDM
- ✓ scope expansion
(programmatic, sectoral benchmarking)
- ✓ governance
- Reformed JI

Key message 4: New mechanisms (2)

- Sectoral crediting
 - ✓ Benefits
 - ✓ Challenges
 - ✓ Questions (companies or governments, co-existence, incentive for upfront private sector investment)
- Sectoral trading
 - ✓ Benefits
 - ✓ Challenges

Key message 5: Mechanisms against objectives

4 mechanism options against 3 objectives

- Environmental integrity → CDM and sectoral trading
- Enhanced investment → Sectoral trading
- Institutional strength
- ✓ Sectoral crediting → sectoral trading → cap & trade
- ✓ Converting the CDM into JI

Clarification of paths could offer more predictability

Recommendation for mechanisms

1. Enhanced efficiency, transparency and governance in the CDM and JI
2. Limits on offset crediting in the CDM
3. Sectoral benchmarking in the CDM and sector targets for JI
4. Choice for host countries between 2 JI tracks and integration of new countries and sectors
5. Transfer of the CDM to JI

Recommendation for an institutional framework and transition

6. An institutional framework for existing and new mechanisms
7. A long-term domestic regulatory framework backed by an international agreement
- 6 & 7 provide clarity about investors' access to market mechanisms and predictability about investment conditions*
8. Two paths for evolving flexible mechanisms

Thank you for your attention

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