

# State of play of the CDM reform debate after Poznan and the climate and energy package

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**Main outcome of climate and  
energy package is the  
certainty of continued demand  
for CDM after 2012**

# CDM in the climate and energy package quantity provisions in the ETS

- Not exceed **50%** reduction below 2005 over period 08-20 for existing operators, similar for new sectors and aviation over period 2013-2020
- Exact percentages to be determined through comitology:
  - Existing operators receive no less than 11% of 2008-2012 allocation for use over 08-20 period
  - Least endowed operators receive on top residual access up to certain % (minimum 1/3 of residual allowances after 11% is given)
  - New entrants and new sectors receive access to no less than 4.5% of annual verified emissions
  - Aviation receives no less than 1.5% of annual actual emissions

# CDM in the climate and energy package quantitative provisions in the ES

- Compared to the Commission's proposal, the level of CDM on average increased from 3% to 3.3% of 2005 emissions
  - 80% of reductions below 2005 but 50% of reductions below BaU
  - Extra 0.3% comes from additional access of 1% by MS (AT, FI, DK, PT, IR, IT, ES, SL, B, LU, CY, SW) who have emissions reduction target or increase target of at most 5% and fulfil one of the following criteria:
    - Direct costs > 0,70 % of GDP
    - Increase of at least 0,1% GDP between adopted target and cost-effective target
    - > 50 % of emissions are from transport-related emissions
    - Renewable energies target > 30%
  - Extra 0.3% only from projects in LDC and small Island dev States
  - MS can transfer the unused part of CDM (3%) to other Member States

- **Unused CERs** from 08-12 limit can be exchanged for allowances valid after 2012
  - Issued prior to 2012, issued after 2012 but registered prior to 2012, bilateral agreements if international agreement not concluded by 31 Dec 2009, from new projects in LDC
  - only CDM accepted in period 2008-2012
- **In EU ETS** provision to restrict from 1/1/2013 use of specific credits from project types decided by qualified majority voting in CCC
  - Can be done at any time (no one-off measure); importance of up to 3 year lead time
- MS only to authorise credits from projects where all participants have headquarters in country that ratified agreement or linked to EU ETS
- **Once international agreement**
  - Only credits from projects from countries that have ratified agreement from 1/1/2013
  - Types of credits agreed (new mechanisms) there are subject to a common EU approach

## In Effort Sharing

- Prohibition of nuclear credits and requirement for MS using temporary forestry credits to replace these for up to 60 years
- MS to report on use, geographical distribution, types and quality of CDM
- Written justification for using credit types restricted under ETS

## When an international agreement is reached

- Commission can adopt measures to provide for use of additional project types created under the international agreement
- Only use credits from projects from third countries which have ratified agreement

# Community offset projects (art.24a)

- Commission may adopt implementation measures for issuing credits from projects administered by MS that reduce GHG emissions outside the ETS
- Preconditions
  - Shall not result in double counting
  - Shall not impede the undertaking of policies and measures
  - Only when inclusion on ETS with art.24 (opt-in) is not possible
- See Community projects as enabling provision rather than something that is in the focus on short notice

- Pilot phase to test inclusion of REDD in the carbon markets for government compliance
- Pre-conditions
  - International agreement with ambitious mid-term emission reduction commitments for balanced supply and demand
  - Proper monitoring and verification
  - Move from project level to national baselines to avoid leakage (solve methodological problems defining baseline)
  - Adequate solution to non permanence of forestry credits and liability issues
- Only after assessment of pilot phase and not before 2020 consider use of forestry credits in EU ETS

# EU aims for the future of the CDM

# EU aims for CDM reform short term

- Strengthen environmental integrity of CDM
  - Ensure real and additional emission reductions
  - Increased use of technology benchmarks for additionality testing
- Expand coverage of CDM through programmatic CDM
- Governance arrangements need improvement
  - More supervisory role of Ex Board i.e. delegation of decision making and strengthening professional support staff
  - Revision of decision-making procedures (transparency, due process)
  - Roles and responsibilities of DOEs need further clarification

# EU aims for CDM reform post 2012

- Ensure own contributions by developing countries to reach reductions below BaU of 15-30% by 2020
  - No regret reductions outside carbon market
  - Move away from pure offsetting
- Differentiated use of CDM in developing countries
  - Move from offsetting to crediting in advanced developing countries where crediting zone only starts below business as usual
  - Pure offsetting only for some countries (LDC)
- Up-scale CDM towards voluntary or mandatory sectoral approach
  - Move to sectoral CDM in LDC
  - No-lose targets or binding sectoral targets in advanced DC
  - Preconditions are MRV, balance supply and demand

# How successful was Poznan in reforming the CDM?

## CDM reform at Poznan

- Lots of attention to CDM in Poznan but slow progress
- Some wins on ways CDM projects are approved under EB guidance
- But key decisions on governance lost due to failure of Article 9 (disagreement on share of proceeds for adaptation from JI and AAUs)
- In summary, Poznan contributed to allay concerns about future of CDM but did not go far enough in the reform of the CDM

# CDM reform at Poznan

## What was agreed?

- No indication CDM would not continue
- Discussion focused on reform, mostly procedural issues, incl.:
  - Increased transparency: publication, classification, indexation and substantiation of EB decisions
  - EB to refrain from retroactive decisions, guidance, tools and rules
  - Simplification and streamlining of accreditation procedures and finalise accreditation standards, while continuously monitor DOE performance
  - Development framework for DOE non-compliance, including fines/sanctions
  - Maintain and update Validation and Verification Manual, and do outreach
  - More objective additionality test/determination of baselines
  - EB to work on reform of CDM => roadmap for concrete proposals (which could capture what was lost in article 9)

# CDM reform at Poznan

## What was lost?

- **Procedures**
  - Code of conduct and TOR for EB members
  - Mandating EB to use more objective and ambitious benchmarks
  - Increased transparency on nomination of EB members: published written statement on experience
  - Procedures for challenging decisions by EB (due process)
  - Transfer of decision-making from EB to Secretariat
- **CCS:** decision delayed until June 2009 and CDM EB to assess implications of inclusion
- **Forestry:** no agreement on REDD (fund vs. market based : national vs. project based)
- **HFC/N2O:** no decision on whether to include plants that started production post 2005

# CDM reform at Poznan

## Differentiation and new mechanisms (AWG KP)

- No discussion on substance
- Sectoral approaches remain firmly in the fire line of G77 and China
- But remains agenda item in AWG KP work programme for 2009 with call for submission by Feb.6 and in-depth consultations at March session
- Negotiation text should come out of next session

- **Avoid fragmented offset standards in different cap-and-trade schemes**
  - Different major carbon markets going for different qualitative approaches for domestic and international offset categories will fragment the market and reduce overall cost-efficiency gains => need to keep these markets compatible
  - Provisions in art.11a.8 to restrict certain credit types allow for such alignment when necessary

- **Avoid a race to the bottom at UN level**
  - Large spread criticism of current CDM
  - Exert pressure on Parties for a race to the top in order to safeguard public acceptability of the carbon market / cap-and-trade
  - Provision to restrict credit types can address potential problems with CDM quality on shorter notice without creating large scale regulatory uncertainty by opening up the legislation at large in a co-decision process

## Some conclusions

- **EU package gave a clear signal that CDM will continue after 2012**
- **However only a deal in Copenhagen and future US demand can give sufficient certainty for demand for CDM credits post 2012**
- **Poznan has seen small progress in operational rules for CDM but structural reforms were delayed due to failure to agree in Article 9 text**
- **Differentiation in commitments, including access to CDM, is a central but contentious point of discussion in international negotiations**
- **Copenhagen should reach agreement on new (sectoral) mechanisms and on continuation and reform of CDM and find agreements in treatment of forestry and CCS**
- **Over time CDM should be superseded by cap-and-trade**

# Visit

<http://ec.europa.eu/environment/climat/emission.htm>

