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A future mechanisms with atmospheric benefits

Third meeting of the CEPS Task Force on

The CDM and Future Flexible Mechanisms Post-2012

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Why do we need atmospheric benefits?

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- **"emissions from developing countries need to deviate – as soon as possible – from what we believe today would be their baseline emissions, even if developed countries make substantial reductions." (IPCC 4AR, WG3, p. 775)**

- **To provide own contributions by developing countries (Chung 2007)**

- **Even strong reductions from industrialized countries would not be enough to prevent severe consequences of climate change**

How to create atmospheric benefits?

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- **Discounting**
  - A project/sector which reduces GHG emissions by x t compared to the baseline would receive only – lets say – x/2 credits

- **Ambitious baselines**
  - If the baseline is set below the business as usual level, a share of the emissions reduction achieved would be additional, since no credits would be generated

- **Shorter crediting periods**
  - If the crediting period is shorter than the lifetime of the investment, emissions would be still reduced after the crediting period but not credited any more

Characteristics of methods

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- **All**
  - Reduce the volume of the credit market
  - Increase the price of credits
- **Discounting**
  - Additional cost would be mainly covered by industrialized countries
- **Ambitious baselines**
  - Additional burden would be mainly covered by developing countries but could be “compensated” by additional funding outside the carbon market (Bali Action Plan)
- **Shorter crediting periods**
  - Benefits will be generated only at the end of the crediting period
- **Methods could be …**
  - … combined: ambitious baseline & shorter crediting period
  - … applied to projects-based and sectoral mechanisms

Discounting

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- **Where to apply discounting**
  - Issuance of CDM
    - Would be applied uniformly to all projects
    - Agreement at UNFCCC level would be needed
  - Demand side
    - Could be applied unilaterally by parties/regions
    - Would result in distortions and shift the demand
- **Differentiation of discounting**
  - Project type
    - Favoring projects with large SD benefits
    - Disfavoring projects with large windfall profits
    - Disfavoring projects with questionable additionallity
  - Country
    - Reflect different DC mitigation capability according to GDP
    - Improve regional distribution of the CDM

Ambitious baselines

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- **Absolute emissions baselines**
  - Baseline is determined ex ante in t CO_2e in year x
- **Emission intensity baselines/indexed baselines**
  - Ex ante: definition of indexes + fixed intensity baseline (e.g. t CO_2e/MWh electricity, t CO_2e/GDP)
  - Ex post: monitoring of indexes + calculation of absolute baseline emission level
- **Technology penetration baselines**
  - Ex ante: definition of baseline technology penetration level (e.g. MW, MWh or % of renewable power)
  - Ex post: calculation of achieved emission reductions with EF expressing difference BAU technology targeted technology

Sectoral crediting mechanism (SCM) based on no-lose targets

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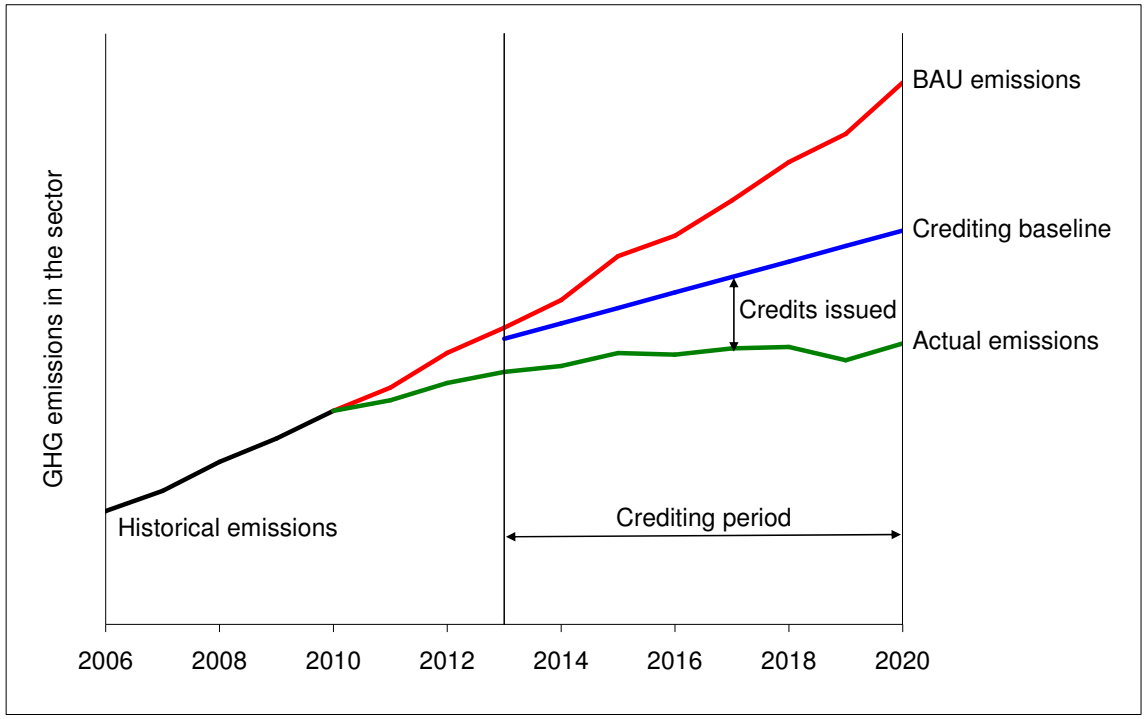
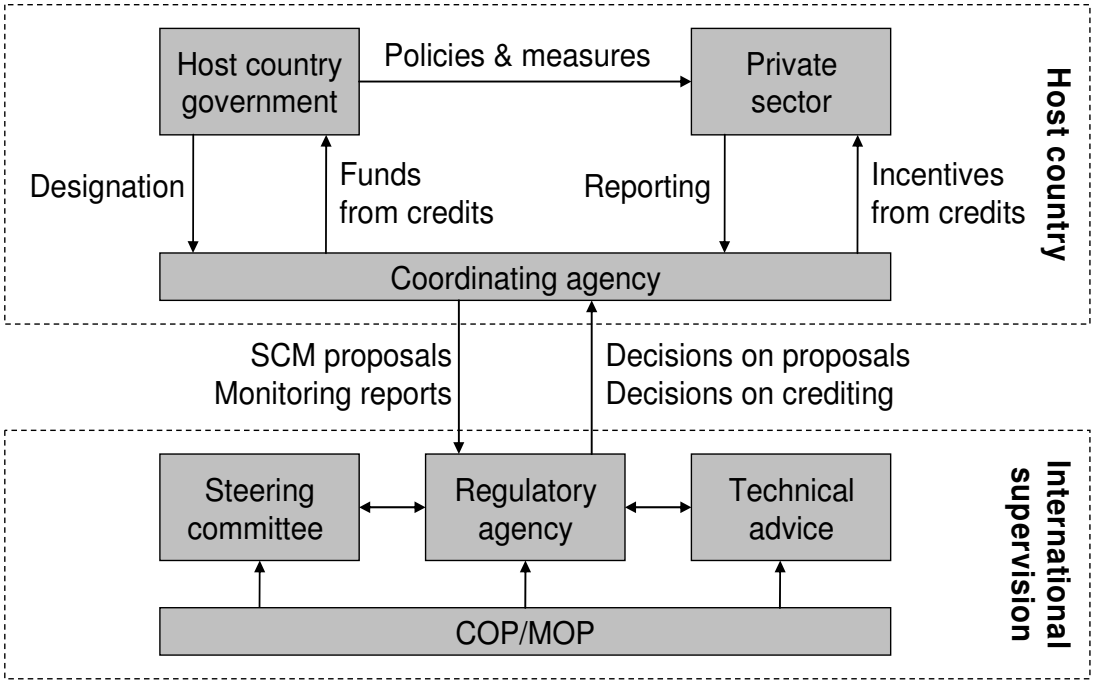


- Participation is not binding
- Contribution of developing countries to global mitigation efforts
- Receiving credits for measurable mitigation policy
- Avoids additionality test of individual projects
- Enables an up-scaling of the global carbon market

Administering the SCM

- Sectoral crediting baselines
  - Included in new climate treaty
  - Determined after the treaty based on key principles
- Issues to be solved
  - Scope: national, inter-national, regional
  - Appropriateness of sectors
  - Length of crediting period
  - Monitoring, accounting, etc.
  - Transition



Conclusions

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- A future mechanisms with atmospheric benefits is possible
- Several methods are available
- A sectoral crediting mechanism with no-lose targets based on ambitious benchmarks could be a promising option for all parties
- Nevertheless, several issues still have to be solved

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Thanks for you attention!

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