



Reforming the existing carbon market

Insights from the CDM

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CEPS Task Force on
The carbon market after Copenhagen:
challenges and the way forward for the EU
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Setting the scene

- Kyoto set the basis for a Global Carbon Market
- Copenhagen outcome
 - KP mechanisms - CDM reform
 - LCA - No advance on sectoral...
 - Copenhagen Accord – financing pledges, importance of private and public finance but very little said about Carbon Markets

Update on the UN process

- Bonn, June 2010
 - AWG-LCA: positive talks on the use of markets in "spin-off" group
 - AWG-KP: non-conclusive discussions on SoP, Complementarity; Carry-over; CCS in CDM, new market-based mechanisms...
 - SBSTA: conclusions on standardized baselines requesting input from Parties and stakeholders. Draft CMP6-decision on CCS in CDM (or not)
- Cancun expectations
 - Continued progress on REDD...
 - Continued CDM reform
 - Further clarity on mechanism improvement under KP
 - Further steps towards consensus on need of market mechanisms under LCA

Task Force on the CDM and post-2012 flexible mechanisms; Recommendations 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

Task Force on the CDM and post-2012 flexible mechanisms: Recommendations 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

CDM

- 2 objectives
 - Emission reductions assisting meeting A1-commitments
 - Sustainable Development for host country
 - And many wishes!
- Stimulated climate change co-operation between developed and developing countries on a practical level through the private sector

Insights from the CDM

- Private sector driven involvement – Ingenuity of market responding to government-created demand
- Has developed MRV – insights about emission reduction options
- Project-by-project – very piecemeal
- Administration – too cumbersome and costly
- Additionality – “tricky” concept

Lessons to learn from the CDM

- It takes time to get a mechanism up-and-running – build on what we have to save time
- Simplification with preserved environmental integrity – possible and necessary
- Set stable rules and be able to revise them according to a defined/understood time table
- One mechanism won't fit all
- Continue CDM reform while developing new mechanisms
 - build on small-scale meths and PoA to develop its important role in the future