

CDM pre/post - 2012 and future instruments

New Market Mechanism Capacity Building-Osaka General Meeting
Osaka, Japan, 7-8 March 2013



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Relevant decisions from CMP 8

The CDM Policy Dialogue

CDM Management Plan

Benefits of the CDM

Project influx past trends

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Future climate instruments

Loans and finance for projects



DOHA SUMMARY

Doha ended the uncertainty over future of Kyoto & mechanisms (2013-2020)

Share of proceeds for adaptation: no change for CDM, extension to JI & trading

Removal of technical obstacles to trading (CPR, eligibility, '§23')

Supply of other CP2 units will be more restricted:

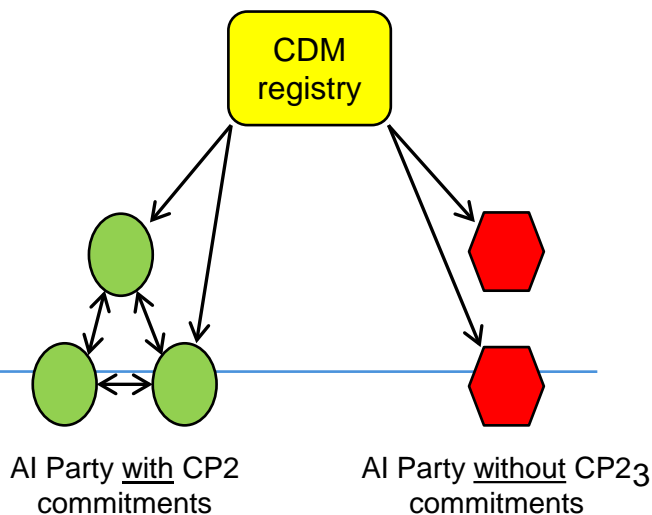
- Constraints on JI: limited to Annex I Parties with CP2 commitments, ERUs cannot be issued until AAUs/RMUs are issued/allocated;
- Constraints on carry over from CP1: special accounts, restrictions on trading/use, political declarations on use (all but 4 Annex I Parties)

CER flows will be affected in part:

- All Annex I Parties can continue to receive CERs forwarded to them directly from the CDM registry (primary market)
- Only Annex I Parties with CP2 commitments can transfer or acquire CERs with each other

All major CDM functions continue:

- Registration and issuance
- Accreditation
- Methodology development



GUIDANCE ON THE CDM (decision 5/CMP.8)

I. General

- Further improve the consistency, efficiency and transparency of its decision-making
- Consider the recommendations arising from the CDM Policy Dialogue that fall within its scope of work and the Marrakesh Accords

II. Review of the modalities and procedures

- Submit recommendations on possible changes to the CDM modalities and procedures

III. Governance

- Accreditation cycle may be extended from 3 to 5 years
- Evaluate use of voluntary sustainable development tool
- Include information about direct communication with stakeholders

IV. Methodologies and additionality

- Extend simplified modalities for demonstrating additionality to a wider scope of small-scale activities, while ensuring environmental integrity
- Continue work on PoAs
- Continue simplification and streamlining of methodologies
- Consider the use of more cost-effective and flexible approaches for A/R projects

V. Registration and issuance

- Continue seeking ways to streamline registration and issuance requests
- Explore possibility of reviewing validation process for automatically additional projects
- Improve guideline on application of materiality in verifications

VI. Regional and sub-regional distribution

- Invite voluntary contributions to loan scheme
 - Activities to promote equitable distribution (incl. help desk & training for DNAs of under represented countries)
-



CLIMATE CHANGE,
CARBON MARKETS AND THE CDM:
A CALL TO ACTION

Report of the High-Level Panel on the CDM
Policy Dialogue



The Panel made **51 recommendations across 12 areas** to address the crisis in international carbon markets and to make the CDM fit for the future

Full report available at:
www.cdmpolicydialogue.org

SUMMARY OF POLICY DIALOGUE RECOMMENDATIONS

Secure market stability

Urgently address the immediate crisis of demand:

Increased mitigation ambition

Wider access to the CDM

Fund and reserve bank

Adapt to new conditions

Enhance mitigation impact

Set standards

Support GCF

Sectoral

REDD+

Net mitigation

Linking

Harmonization

Enact operational reforms

Standardized methods for determining additionality

Better sustainable development assessments

Strengthened co-benefits

Greater access for underrepresented regions

Strengthen governance

Clearer roles and greater accountability

Stakeholder relations and public engagement

Appeals and grievance mechanisms

Regulatory certainty and streamlining



CDM MANAGEMENT PLAN FOCUS AREAS

Focus area 1: Contribution to the strategic improvement of the CDM

- Contributing to changes in the guidance provided by the CMP, further development of the Board's strategy, and work that could significantly alter approaches to work adopted by the Board and/or the secretariat

Focus area 2: Enabling broader and deeper participation in the CDM

- Expanding the reach of the CDM by enhancing the distribution of projects, project types and programmes in countries, regions and sub-regions that are underrepresented including the development of a toolkit of approaches, standards and methodologies to facilitate broader participation

Focus area 3: Continue to operate the CDM efficiently and effectively

- Work necessary to achieve greater efficiency and effectiveness while safeguarding environmental integrity aiming to improve the mechanism in a manner that meets the needs and expectations of stakeholders

Focus area 4: Promotion, outreach and stakeholder interaction

- Engaging with external stakeholders that shape opinions about the CDM and that influence decisions made about its future, including means to gather information to support the continuous improvement of the CDM

Focus area 5: Development of appropriate tools and systems

- Development and implementation of tools and systems that are appropriate for the changing needs of the CDM and enhance efficiency through reducing effort and cost per transaction for targeted processes and improve the quality and timeliness of outputs



Report: "Benefits of the Clean Development Mechanism 2012"

HIGHLIGHTS

Download the full report: http://cdm.unfccc.int/about/dev_ben/index.html



- 1 **USD 215.4 billion**
investment in CDM projects spurred by end of 2012 in developing countries = foreign direct investment of Denmark, France & Germany combined (2007-2011)
- 2 **USD 21.5 - 43 billion**
foreign investment as a result of CDM projects to date = half the new investment in renewable energy in all developing countries (2011)
- 3 **USD 3.6 billion** = compliance savings to Annex I Parties under the Kyoto Protocol (2008-2012)
- 4 **USD 9.5 - 13.5 billion**
direct benefit to host countries from sale of CERs to date

5 **Top 5** technology and "know-how" suppliers for CDM projects: Germany, USA, Denmark, Japan and China



= CDM helps generate and support green growth programmes globally

6 **CDM projects vs. similar non-CDM projects in developed countries:**

- ▶ CDM projects are 3-4 times larger in terms of power generation capacity (except solar thermal projects)
- ▶ CDM projects are 15% (solar photovoltaic) to 50% (geothermal and solar thermal power) less capital intensive

CDM projects = more efficient use of capital invested

7 **110,000 MW**
of renewable electricity capacity from CDM projects over the last 10 years



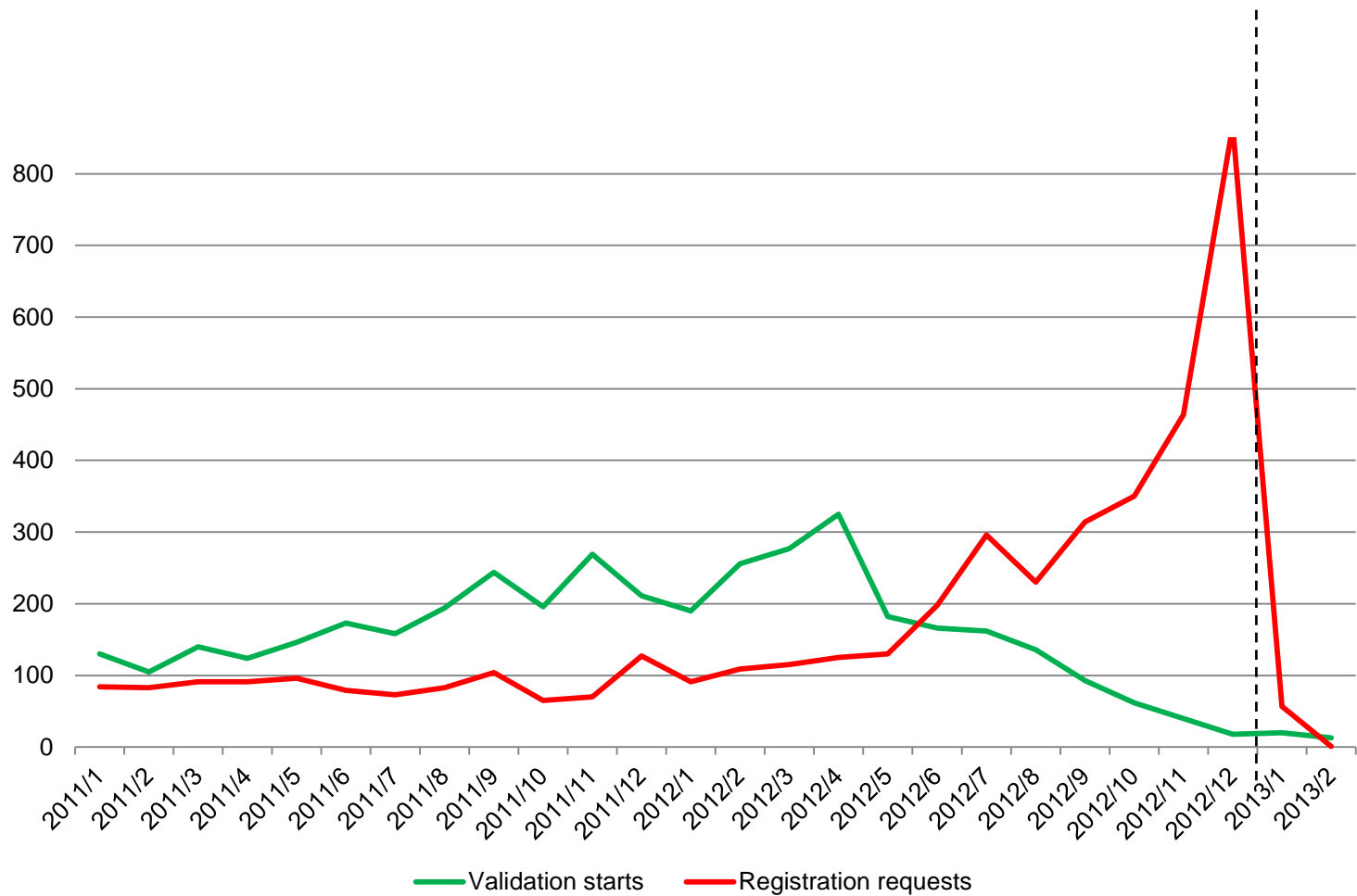
current total power generation capacity of Africa

8 CDM has effectively designed a set of indicators for reporting on sustainable development in host countries

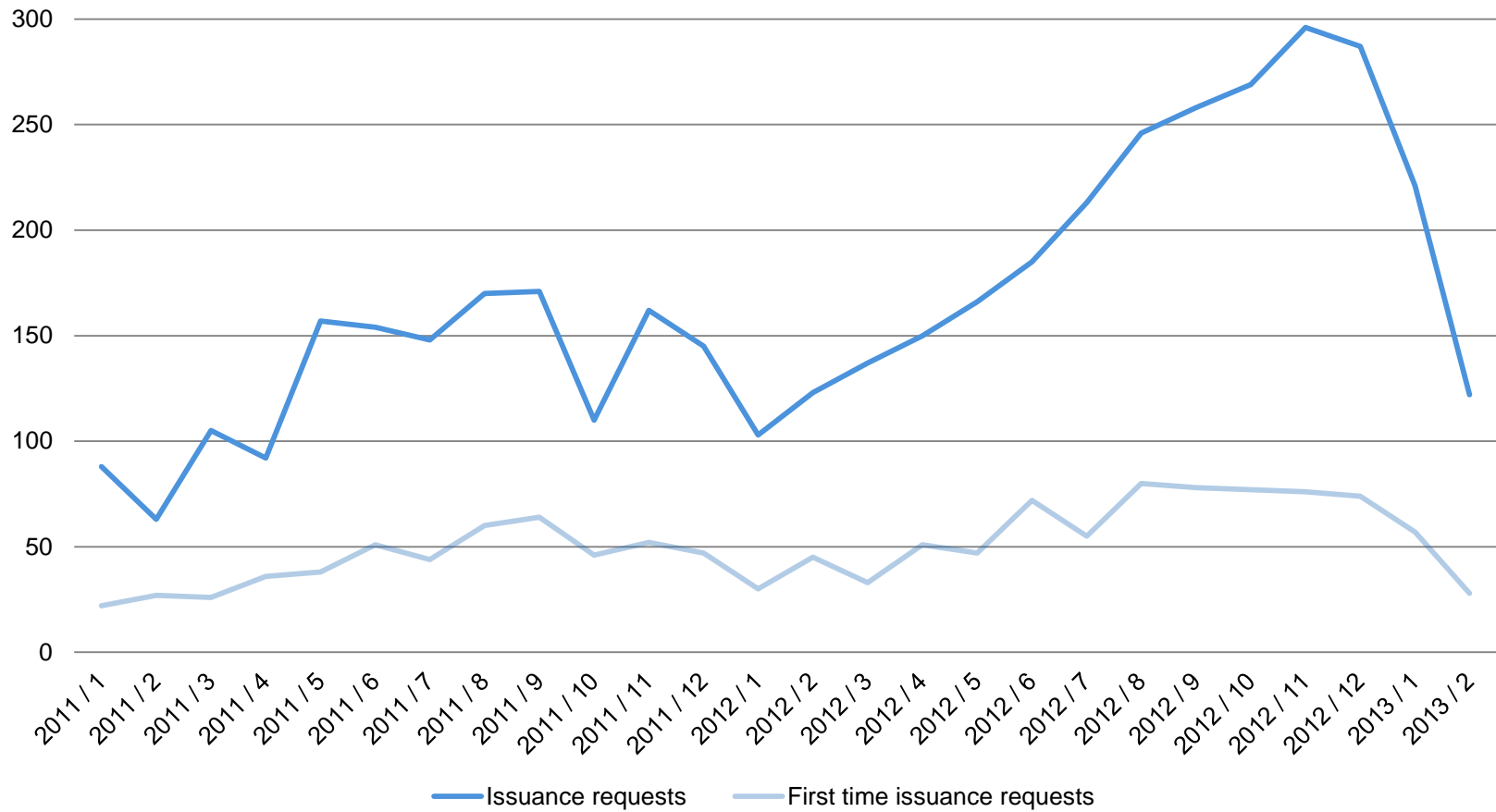
9 CDM facilitates the transfer of technology and knowledge to developing countries

USD 92.2 billion total investment in known to be operating). A further 123.1 billion is expected.

NEW AND REGISTERED PROJECTS



ISSUANCE AND NEW ISSUANCE REQUESTS



CERs to the end of the 1st KP commitment period and beyond

Number of CDM project activities that have issued CERs:	▼CERs issued	◆Potential supply of:			
		♣CERs to the end of the 1 st KP commitment period (31 Dec. 2012)	CERs to the end of 2015	CERs to the end of 2020	CERs to the end of all current crediting periods
♠2076	1,198,058,628	1,777,544,448	2,731,536,896	3,194,120,192	3,200,697,600
♠Adjusted by past rate of issuance		1,414,525,824	2,125,220,608	2,441,242,880	2,445,367,808

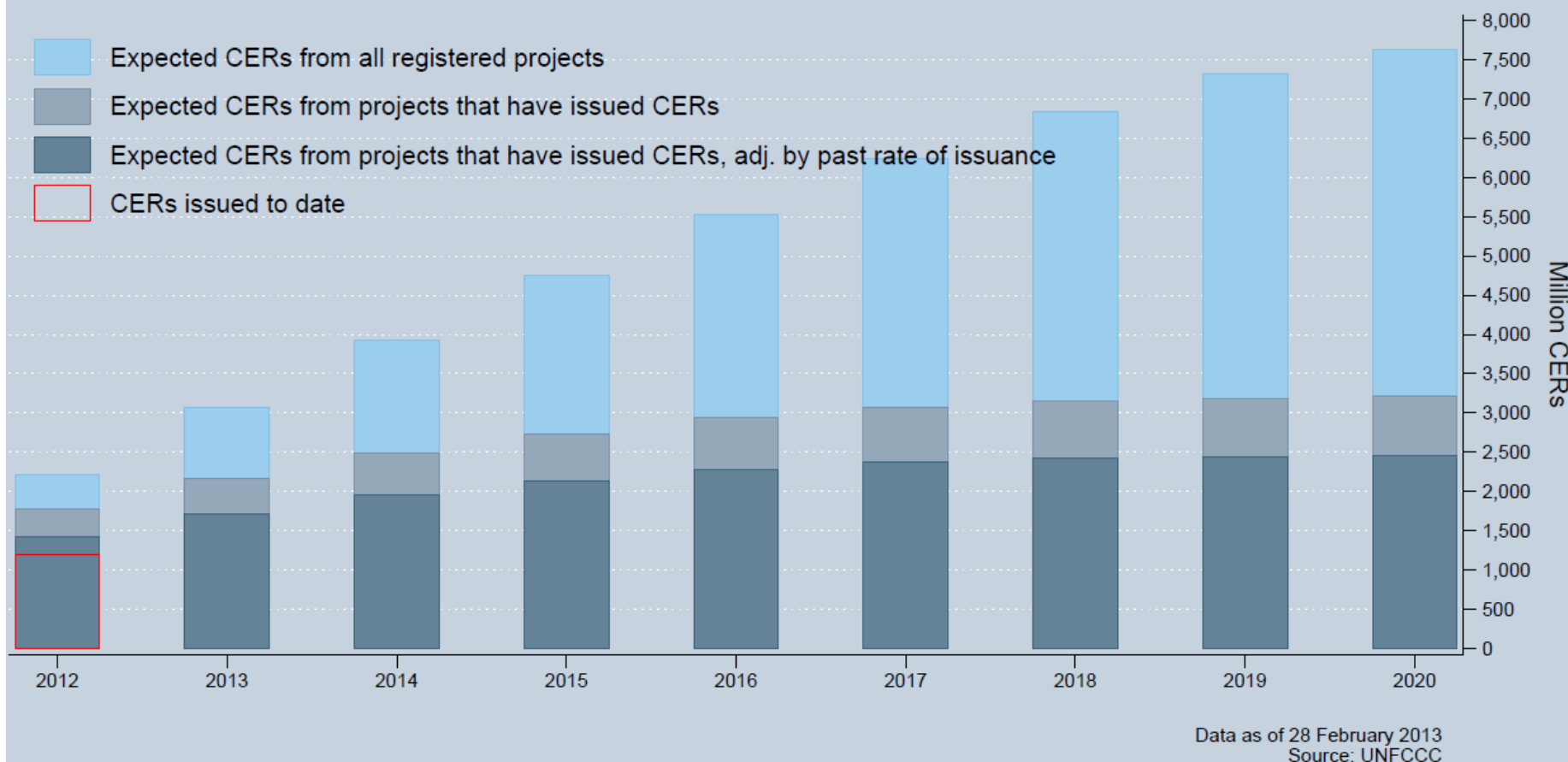
CDM Insights: data as of: 31 January 2013

			CER/ERU	AAU
Demand	Governments	Invested	299 (299)	229 (173)
		Further planned	32 (62)	8 (71)
		Residual need	3 (6)	48 (107)
	Private	EU ETS surrendered	553 (553)	0 (0)
		EU ETS projected	350 (248)	0 (0)
		Japan projected	116 (228)	134 (114)*
		Other private	2 (2)	0 (0)
<i>Total demand</i>			1352 (1396)	419 (465)
Supply	CERs		1520 (1676)	N/A
	ERUs		525 (353)	N/A
	<i>Total supply</i>		2045 (2028)	N/A
Credit balance			693 (632)	N/A



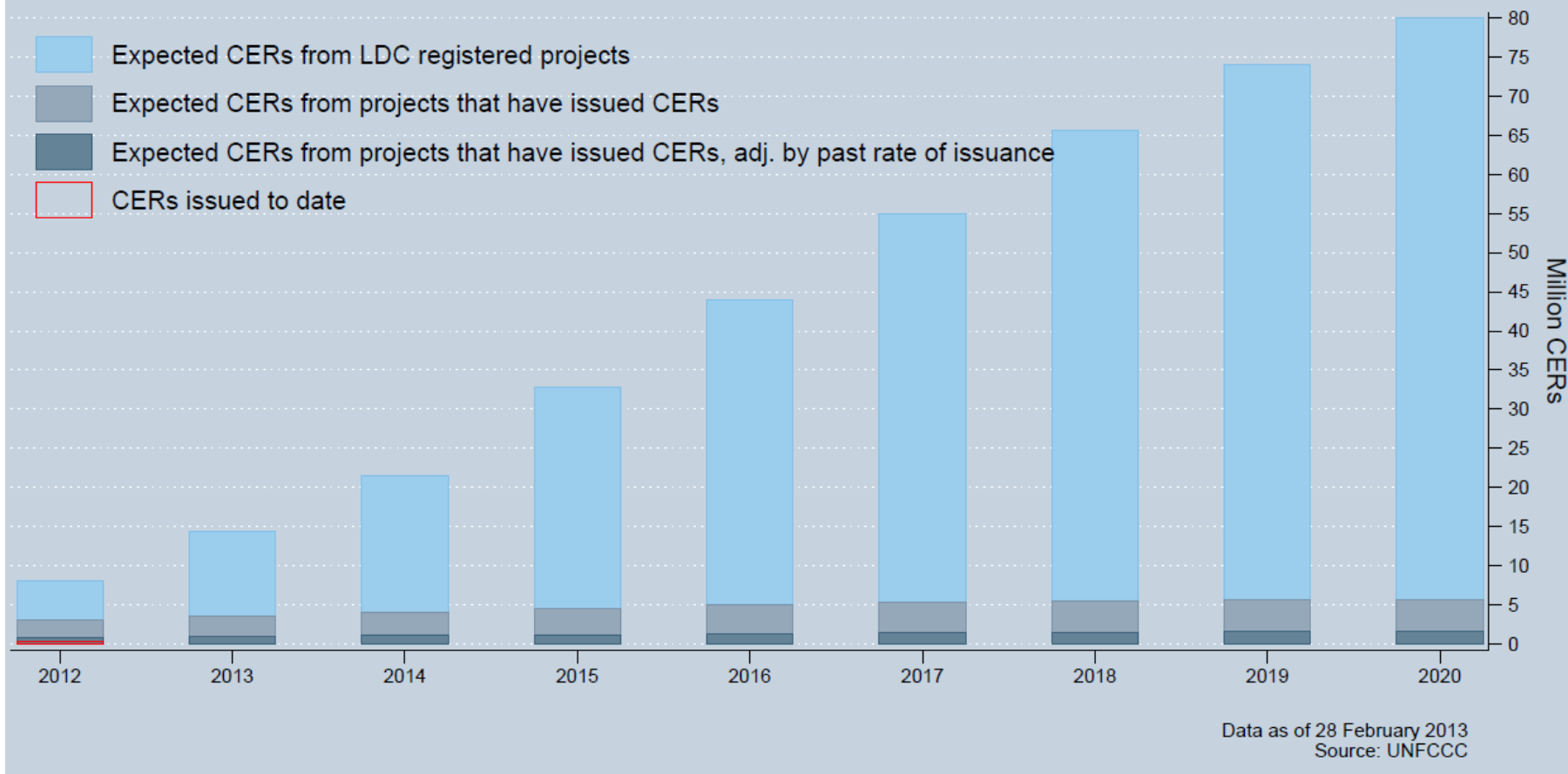
ALL PROJECTS SUPPLY

Total potential supply of CERs from end KP 1st CP to 2020



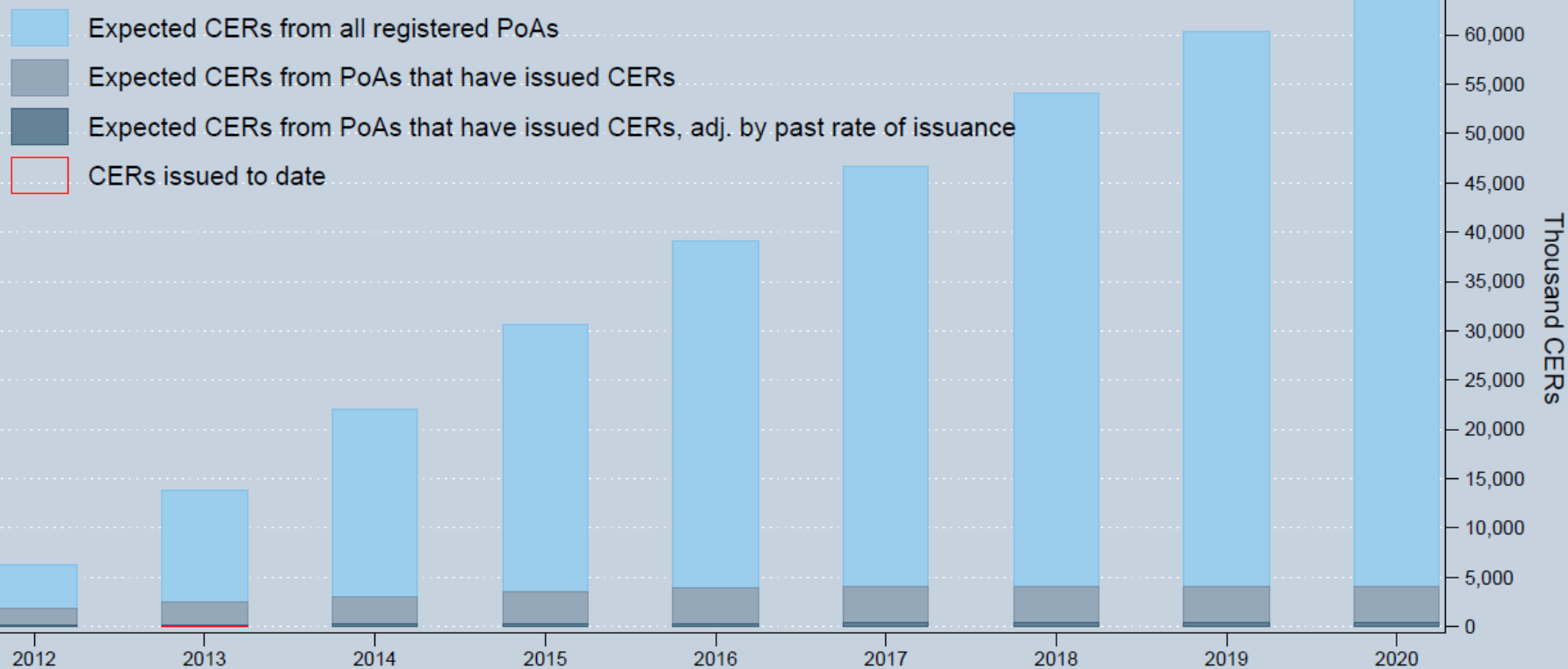
LDC PROJECT SUPPLY

Total potential LDC supply of CERs from end KP 1st CP to 2020



POA SUPPLY

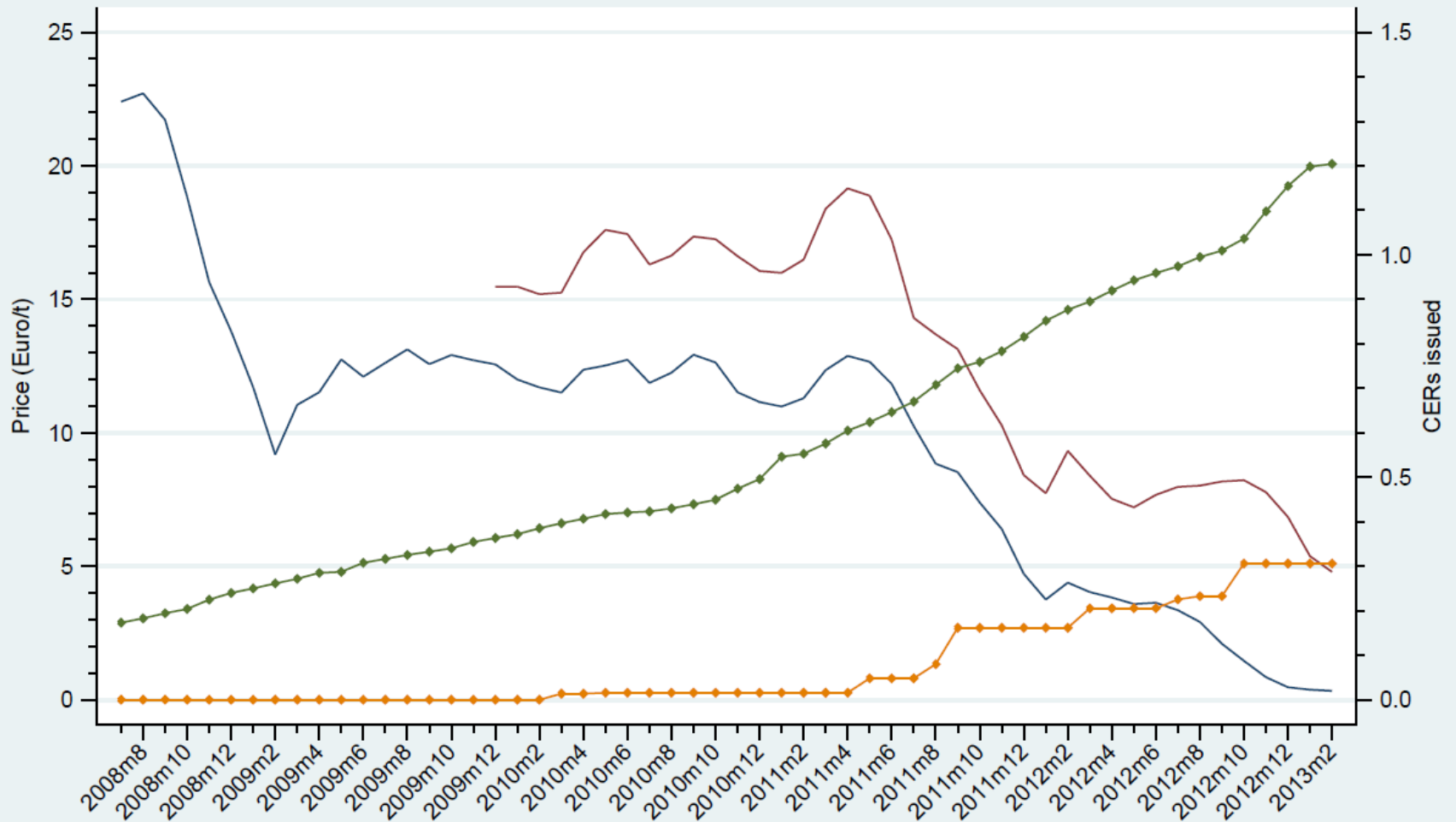
Total potential PoA supply of CERs from end KP 1st CP to 2020



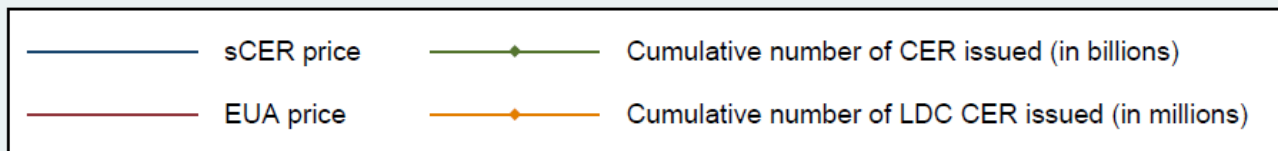
Data as of 28 February 2013
Source: UNFCCC



CER PRICE vs. ISSUED CERs (why the price collapse?)

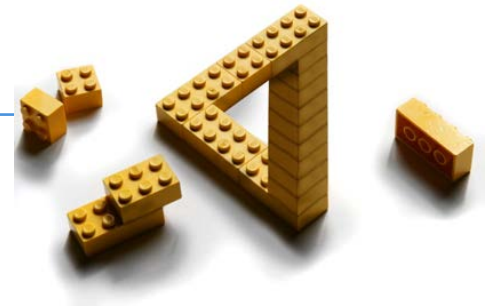


Source: UNFCCC
Point Carbon (price) as of 25 February 2013



MARKET CONTEXT

- Fragmented and multitude of metrics
- Diversified demand & current oversupply
- Flexibility and tension between options and pathways
- New opportunities and new players
- More complex to understand and use



UNFCCC negotiations:

- **Kyoto Protocol:** 2nd CP with new commitments; amended participants; continuation of the KP mechanisms; a process to increase ambition by 2014.
- **Convention:** review, process to clarify pledges, operationalization of various new arrangements and mechanisms.
- **ADP:** a new post 2020 climate agreement by 2015; discussions on the design are premature, role of markets not fully discussed yet, a facilitative means for Parties to meet ambitions and process to increase ambition.

Developments in parallel

- Carbon pricing and climate tax is maturing
- Cap & trade, ETS, domestic offsetting in developed & developing countries
- Market preparedness initiatives and cap. build. (World Bank, IGES etc.)



NEW MARKET MECHANISM

- Work programme to elaborate modalities and procedures
- Submissions by 25 March 2013
- Elements that could be discussed:
 - Operation under the guidance and authority of the Conference of the Parties;
 - The voluntary participation of Parties in the mechanism;
 - Standards that deliver reliable mitigation outcomes, avoid double counting achieve GHG reductions;
 - Requirements for MRV of emissions reductions;
 - Means to stimulate mitigation across broad segments of the economy;
 - Criteria and methods for ambitious reference levels (crediting thresholds and/or trading caps) and issuance of units;
 - Criteria for the recording and tracking of units;
 - Complementarity;
 - A share of proceeds;
 - The promotion of sustainable development;
 - The facilitation of the effective participation of private and public entities;
 - The facilitation of the prompt start of the mechanism;



FRAMEWORK FOR VARIOUS APPROACHES

- Work programme to elaborate a framework for various approaches
- Submissions by 25 March 2013
- Elements to be discussed include:
 - The purpose of the framework;
 - The scope of approaches to be included in the framework;
 - A set of criteria and procedures to ensure the environmental integrity of the approaches under the framework;
 - Specifications to avoid double counting through recording and tracking of mitigation outcomes;
 - The institutional arrangements for the framework

To be elaborated in 2013:

- SBSTA agenda in June and November 2013
- COP19 decision in November 2013



NON MARKET BASED APPROACHES

- Work programme to elaborate non-market based approaches
- Submissions by 25 March 2013
- No instructions on the content
- Possible non-market based approaches:
 - labeling,
 - standards,
 - taxes,
 - policies and measures, etc.
- Specific approaches proposed in previous discussions
 - Joint mitigation and adaptation non-market based mechanism for the forestry sector
 - A non-market based arrangement for HFCs mitigation in collaboration with the Montreal Protocol



MITIGATION and ADAPTATION ACTIONS

- Developing countries are invited to submit Nationally Appropriate Mitigation Actions (NAMAs)
 - No definition or criteria for these type of actions
 - Various sources of finance. Finance via CDM or new mechanisms is possible
 - NAMA Registry records actions, match-making with donor organizations possible
 - Green Climate Fund will have a mitigation window
 - The Technology Mechanism supports both mitigation and adaptation actions
 - Some mitigation actions may have adaptation co-benefits and vice-versa
- National Adaptation Plans (NAPs) by all developing countries
 - Least developed countries receive funding for the design of the NAPs via the Least Developed Countries Fund managed by GEF
 - Finance for implementation of actions under discussion, various sources of finance possible
 - Adaptation Fund finances adaptation actions
 - Green Climate Fund will have an adaptation window
 - The Technology Mechanism supports both mitigation and adaptation actions
 - Some mitigation actions may have adaptation co-benefits & vice-versa



GREEN CLIMATE FUND and GEF

- GCF and GEF form the financial mechanism of the UNFCCC
- Green Climate Fund (CGF):
 - Important instrument to deliver \$100 million per year long-term finance by 2020 for mitigation and adaptation actions in developing countries
 - Progress in operationalization:
 - SGF to be hosted by South Korea
 - Temporary secretariat in Bonn
 - Permanent secretariat is being recruited & will move to Seoul
 - Some pledges made in Doha
- Global Environmental Facility (GEF)
 - +/- \$250 million for developing countries and countries in transition
 - Various types of climate change projects, including Poznan Strategic Programme on Technology
 - Hosts of the LDC Fund and Special Climate Change Fund



TECHNOLOGY MECHANISM

- Established in Cancun
 - Policy arm: Technology Executive Committee
 - Implementation arm: Technology Centre and Network
 - Support for both mitigation and adaptation actions in developing countries
 - Policy recommendations regarding technology, such as on enabling environments and barriers to technology development and transfer
- Instruments so far:
 - Technology road maps,
 - Action plans and needs assessments by developing countries,
 - Financed by GEF under the umbrella of the Poznan Strategic Programme
- Agreement to integrate the TNA's (technology needs assessments) in other related UNFCCC processes - NAMAs, national adaptation plans and low-emissions development strategies
- Progress in operationalization:
 - 2 Technology Executive Committee meetings
 - Technology Centre and Network to be hosted by UNEP and supported by GEF
- Linkages with finance under discussion



SPECIFIC SECTORS and APPROACHES

- REDD+
 - Phase 1 and 2 regarding assessment and planning already ongoing, finance via a variety of sources, including the World bank and the voluntary market
 - Discussions on Phase 3, regarding market and non-market approaches to finance actions continue
 - Systematic observation is crucial
- Agriculture
 - New agenda item on this issue
- Bunkers
 - No progress under the UNFCCC yet
- Aviation
 - ICAO to organize a workshop on climate pricing
- Loss and Damage
 - Decision to establish institutional arrangements in 2013, e.g. an international mechanism, to address loss & damage in vulnerable developing countries;
 - All countries are invited to design, implement and promote country-driven climate risk management strategies and approaches;
 - Discussions regarding market & non-market approaches to finance actions



Loans provide financing for PDD development, validation and 1st verification process.

- the preparation of the Project Design Document (PDD);
- the validation by a 'Designated Operational Entity' (DOE);
- verification of the first issuance of 'Certified Emissions Reductions' (CERs).

- Conditions:
 - High probability of registration;
 - Generate >7,500 CERs/yr. for LDC or 5,000 CERs/yr. non-LDCs projects;
 - Projects in host country <10 registered projects (on 1 Jan. of year of submission);
 - Project documentation developed by an experienced CDM consultant;
 - Loan must not "crowd out" other obvious funding (donor funding or buyer funding);
 - Not valid for retro-active reimbursement of past expenses.

www.cdmloanscheme.org





Thank you!

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