CDM pre/post - 2012 and future instruments

New Market Mechanism Capacity Building-Osaka General Meeting
Osaka, Japan, 7-8 March 2013
Relevant decisions from CMP 8
The CDM Policy Dialogue
CDM Management Plan
Benefits of the CDM
Project influx past trends
CER supply to 2020
Future climate instruments
Loans and finance for projects
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)
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**
  - Sectoral
  - REDD+
  - Net mitigation
  - Linking
  - Harmonization
  - Support GCF

**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

HIGHLIGHTS

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

1. USD 215.4 billion investment in CDM projects spun off by end of 2012 in developing countries

2. USD 21.5 - 43 billion investment as a result of CDM projects to date

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

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

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
NEW AND REGISTERED PROJECTS

Validation starts
Registration requests

- Validation starts: green line
- Registration requests: red line

- The graph shows the trend of new and registered projects from 2011/1 to 2013/2.
- The validation and registration requests have a similar trend, with a significant increase in 2013/1.
ISSUANCE AND NEW ISSUANCE REQUESTS

- Issuance requests
- First time issuance requests

Graph showing the issuance and first-time issuance requests over the years from 2011/1 to 2013/2.
CERs to the end of the 1st KP commitment period and beyond

<table>
<thead>
<tr>
<th>Number of CDM project activities that have issued CERs:</th>
<th>♥CERs issued</th>
<th>♦Potential supply of:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>♥CERs to the end of the 1st KP commitment period (31 Dec. 2012)</td>
<td>CERs to the end of 2015</td>
</tr>
<tr>
<td>♠2076</td>
<td>1,198,058,628</td>
<td>1,777,544,448</td>
</tr>
<tr>
<td>♠Adjusted by past rate of issuance</td>
<td>♥1,414,525,824</td>
<td>2,125,220,608</td>
</tr>
</tbody>
</table>

CDM Insights: data as of: 31 January 2013

<table>
<thead>
<tr>
<th>Demand</th>
<th>CER/ERU</th>
<th>AAU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Govern-</td>
<td>Invested</td>
<td>299 (299)</td>
</tr>
<tr>
<td>ments</td>
<td>Further planned</td>
<td>32 (62)</td>
</tr>
<tr>
<td></td>
<td>Residual need</td>
<td>3 (6)</td>
</tr>
<tr>
<td>Private</td>
<td>EU ETS surrendered</td>
<td>553 (553)</td>
</tr>
<tr>
<td></td>
<td>EU ETS projected</td>
<td>350 (248)</td>
</tr>
<tr>
<td></td>
<td>Japan projected</td>
<td>116 (228)</td>
</tr>
<tr>
<td></td>
<td>Other private</td>
<td>2 (2)</td>
</tr>
<tr>
<td></td>
<td><strong>Total demand</strong></td>
<td>1352 (1396)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Supply</th>
<th>CERs</th>
<th>ERUs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1520 (1676)</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>525 (353)</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total supply</strong></td>
<td>2045 (2028)</td>
<td>N/A</td>
</tr>
<tr>
<td>Credit balance</td>
<td>693 (632)</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Point Carbon: data as of Oct 2012 (Credit balance for the Kyoto period (2008-12))
Total potential supply of CERs from end KP 1\textsuperscript{st} CP to 2020

- Expected CERs from all registered projects
- Expected CERs from projects that have issued CERs
- Expected CERs from projects that have issued CERs, adj. by past rate of issuance
- CERs issued to date

Data as of 28 February 2013
Source: UNFCCC
Total potential LDC supply of CERs from end KP 1st CP to 2020

- Expected CERs from LDC registered projects
- Expected CERs from projects that have issued CERs
- Expected CERs from projects that have issued CERs, adj. by past rate of issuance
- CERs issued to date

Data as of 28 February 2013
Source: UNFCCC
Total potential PoA supply of CERs from end KP 1st CP to 2020

- Expected CERs from all registered PoAs
- Expected CERs from PoAs that have issued CERs
- Expected CERs from PoAs that have issued CERs, adj. by past rate of issuance
- CERs issued to date

Data as of 28 February 2013
Source: UNFCCC
CER PRICE vs. ISSUED CERs (why the price collapse?)

- **sCER price**
- **EUA price**
- **Cumulative number of CER issued (in billions)**
- **Cumulative number of LDC CER issued (in millions)**

*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;
  • Supplementarity;
  • 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;
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.

[http://www.cdmloanscheme.org](http://www.cdmloanscheme.org) for POA funding from the KFW Bank
Thank you!

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