

# CDM beyond 2012: Current development and future prospect and expectations

CDM Project Development Experience

Ulaanbaatar

3 November 2011

**Kazuhisa KOAKUTSU**

**Market Mechanism Group, IGES**

## Future mechanism and future regime

- Future carbon market mechanisms will depend on the future international climate regime beyond 2012.
- After COP16 in Mexico, three official negotiation meetings to discuss the future climate regime were held, and meeting will continue in COP17 in Durban, South Africa.
- Basic negotiating position for each country looks unchanged since before Copenhagen.

# Basics of UNFCCC and Kyoto Protocol

## UNFCCC (United Nations Framework Convention on Climate Change)

- ◆ Adopted in 1992
- ◆ Agreed to stabilize greenhouse gas concentrations
- ◆ 193 Countries have ratified the Convention

## Kyoto Protocol

- Adopted in 1997 at Kyoto
- Agreed to reduce emissions of 5% below 1990 level by industrialized countries (Annex-I).
- Introduced “Flexible Mechanisms(Kyoto Mechanism)”

clean development mechanism (CDM)

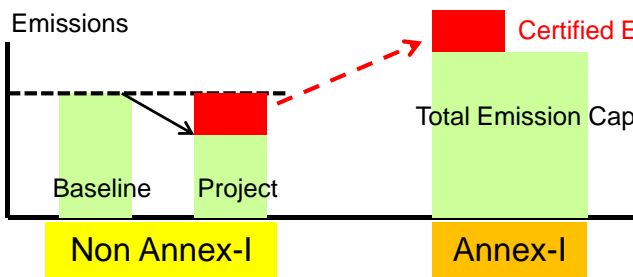
joint implementation (JI)

international emission trading (IET)

3

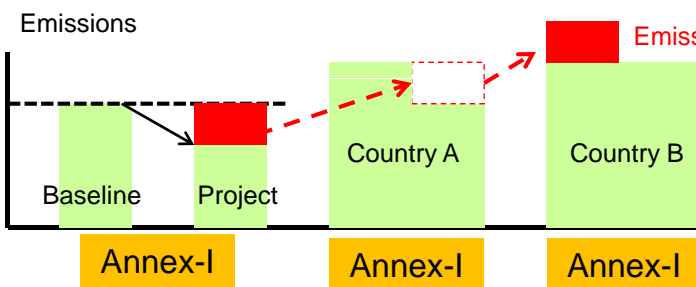
# Basics of Flexible Mechanisms

CDM



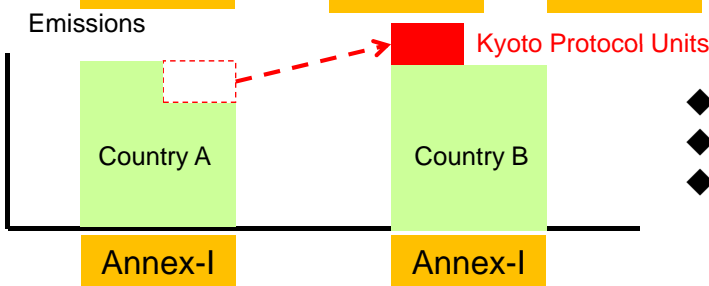
- ◆ Baseline-credit Type
- ◆ Trade between NAI & AI
- ◆ E.g. China & Japan

JI



- ◆ Baseline-credit Type with Credit Transfer
- ◆ Trade between AI & AI
- ◆ E.g. Ukraine & Japan

IET



- ◆ Credit Transfer
- ◆ Trade between AI & AI
- ◆ E.g. UK & Japan

4

# Two Track Approach for the Future

UNFCCC (United Nations Framework Convention on Climate Change)

## Kyoto Protocol

Joint Implementation (Article 6)

CDM (Article 12)

International Emission Trading (Article 17)

AWG-LCA (Ad Hoc-Working Group on Long-term Cooperative Action under the Convention)

- Participation including USA
- 5 themes: Shared vision, mitigation, adaptation, finance, and technology
- Market Mechanisms discussed under "Various approaches"

AWG-KP (Ad Hoc-Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol)

- Participation of Parties to Kyoto Protocol (Japan, EU, Canada, Russia...)
- Emission reduction commitments by Annex I parties
- Options of Market Mechanism (CDM, JI etc)

5

# Negotiation Status on Mechanisms

## Kyoto Protocol (AWG-KP)

### Options for CDM

Nuclear, Co-benefit, CER discounted etc

### Options for JI

Nuclear, Co-benefit

### Others

Carry-over, charging fee for AAUs and RMUs, New market based mechanisms, complementarity

## UNFCCC (AWG-LCA)

- Decided to consider the establishment of one or more market mechanisms
- Agreed to maintain and build upon existing mechanisms including Kyoto mechanisms (CDM and JI)
- AWG-LCA elaborates the mechanisms for CMP7 decisions

6

→ Not agreed

→ Agreed

6

## Country's position on future regime

- Japan is insisting an adoption of a new single comprehensive framework, instead of extension of the Kyoto Protocol.
- Developing countries are insisting “extension of the Kyoto Protocol + US commitment.”
- EU prefers a single instrument, but can consider extension of the KP if this were part of a wider outcome engaging all major economies.
- USA requires commitments of major developing countries, while rejecting to discuss the Kyoto Protocol, except the CDM.

7

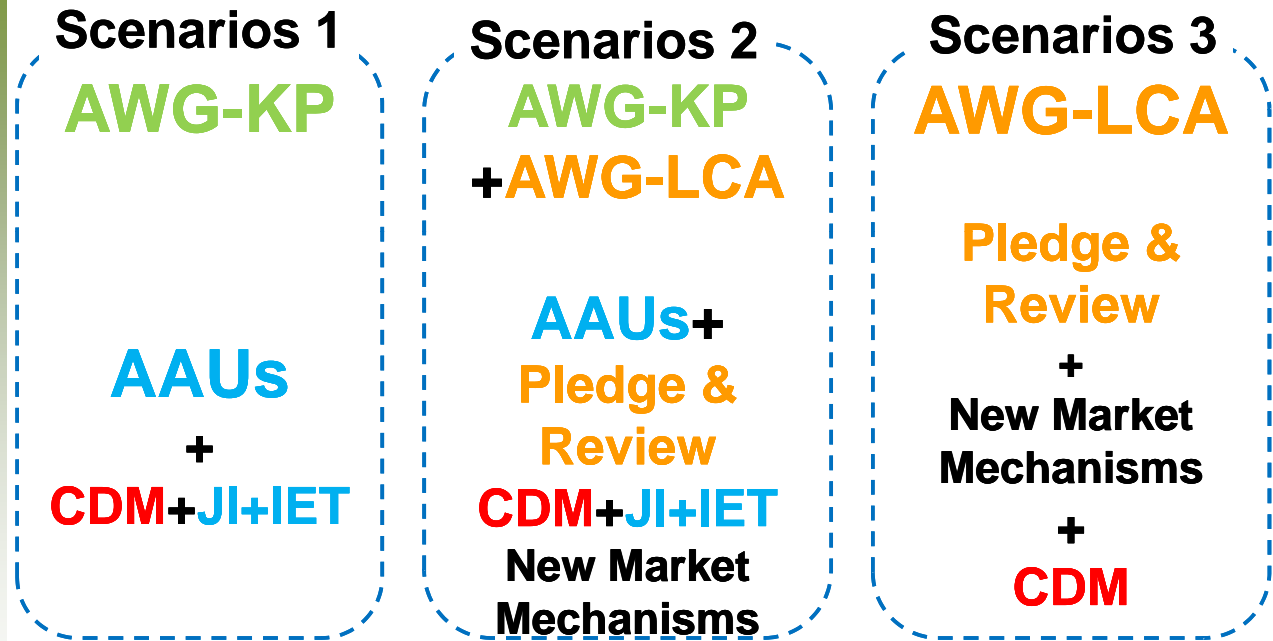
## Country's position on future regime



Note: all developed countries and small developing countries are insisting contribution or commitment from major developing countries is necessary.

8

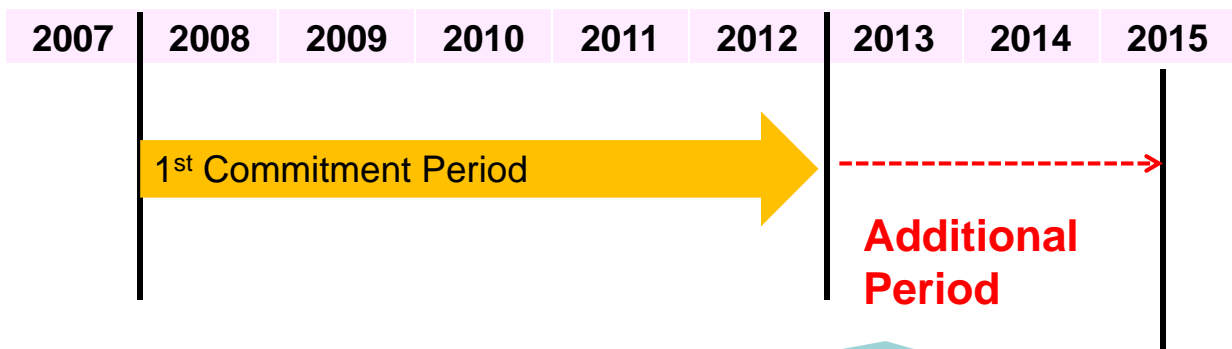
# Possible scenarios under after 2012



- ◆ CDM can be utilized for any scenarios
- ◆ JI and IET requires AAUs
- ◆ New market mechanisms can co-exist with CDM

## Would CDM Stop after 2012?

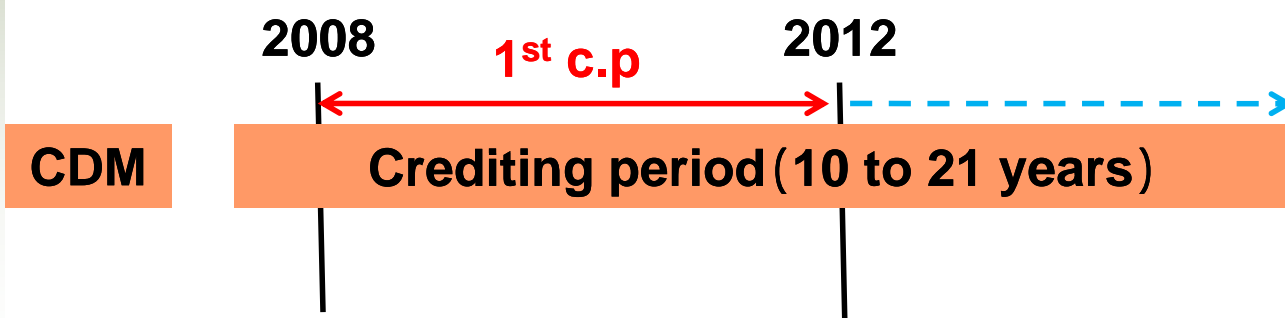
◆ No, at least until mid-2015, there is so called “additional period” to adjust the compliance of KP where credit will be used..



For the purpose of fulfilling commitment, Parties can transfer credits from CDM and JI as well as AAUs and RMUs (CMP/2005/8/Ad3. p.101 XIII)

# Would EB Stop Operating after 2012?

- ◆ No, CERs will be issued from CDM projects after as long as there is registered projects and there is a request for issuance of credit.
- ◆ Unless there is any specific decision at COP, EB can continue to operate after 2012.



11

## Questions will be Demand for Credit

- ◆ International binding target
- ◆ Domestic (regional) target or ET schemes
- ◆ International Fund (World Bank, ADB, etc)

### EU

- EU-Emission Trading Scheme (2013-2020)
- Allow the use of CERs
- Maximum percent per country (<20%)
- Certain limitation on project types (no HFCs, N2O)
- New projects after 2012 only from LDCs
- Credit from registered projects will be accepted

### Japan

- Support the use of CDM
- Domestic offset scheme allows the use of CERs

### NZ

- National Emission Trading Scheme allow the use of CERs

### US, Australia, Korea

- Domestic ETS will allow the use of CERs (2012-)

12

## The CDM in future climate regime

- Under the international negotiation, no country is insisting **the CDM** must be abolished.
- EU and Japan stated, even if there is a gap after 2012, **the CDM** can work.
- The USA is also showing the interest to buy from **the CDM**.
- But all the countries, including the USA, are insisting **the CDM** must be improved, such as simplification and shortening necessary time for procedures.

13

## Conclusions

- Future carbon market mechanisms will depend on the future international climate regime, but it is uncertain when such regime will get effective.
- One of the future market mechanisms after the CDM is the CDM, but improved CDM.
- In addition to the CDM, several new mechanisms are proposed.
- It is all up to each country what kind of approach to take. But without compromise, multilateral agreement will be difficult to be adopted.

14