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# What does Durban mean for the project-based and new market mechanisms?

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Copenhagen, 20 January 2012



**COP17/CMP7**  
UNITED NATIONS  
CLIMATE CHANGE CONFERENCE 2011  
DURBAN, SOUTH AFRICA

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# Topics



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- **Durban silver lining**
- **The new market mechanism**
- **Kyoto Protocol continuation**
- **CDM reform**
- **Geological storage rules, materiality, standardization**
- **Ongoing fragmentation**
- **Three time slices for markets**
- **Too much supply, too little demand?**

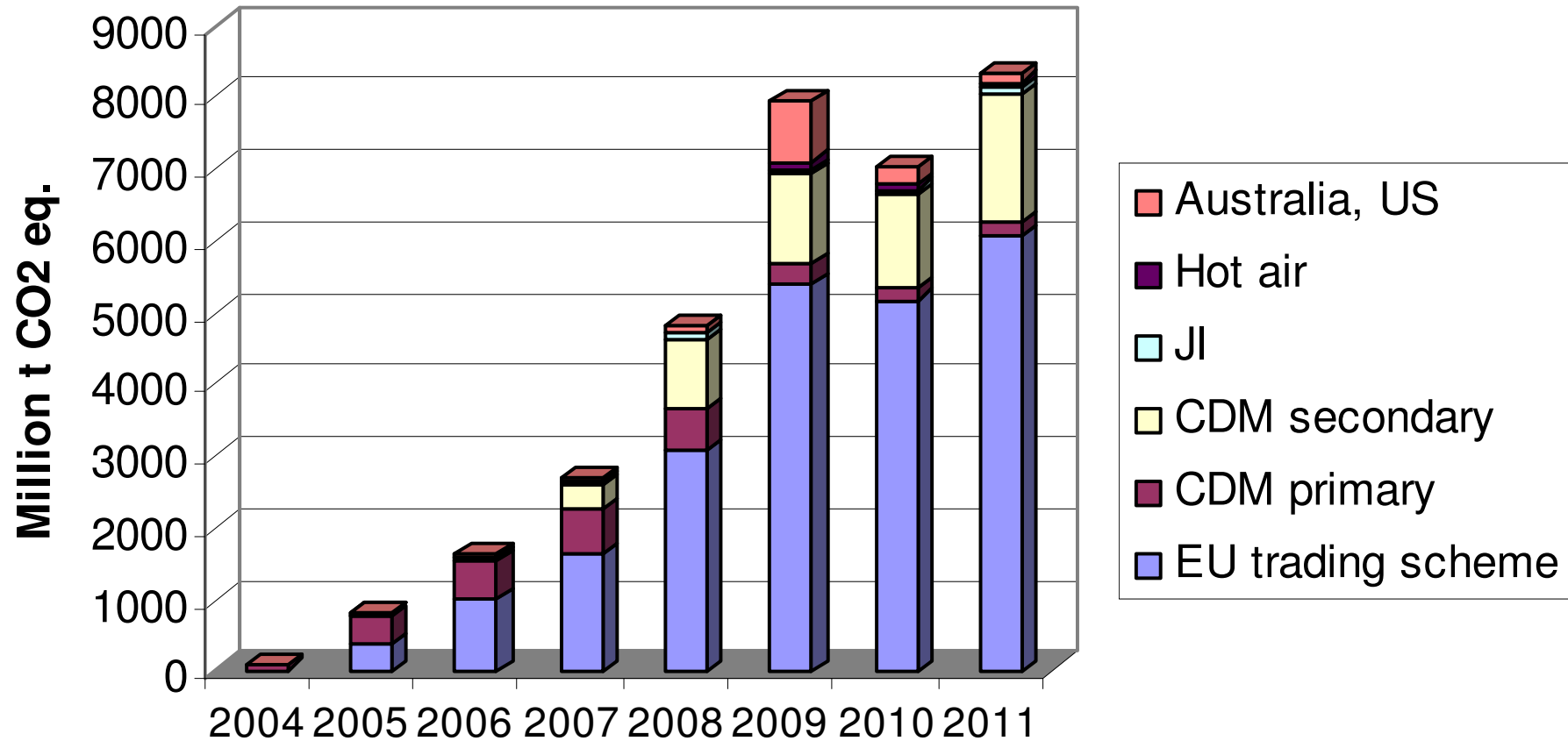
# The climate policy framework



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# The role of market mechanisms

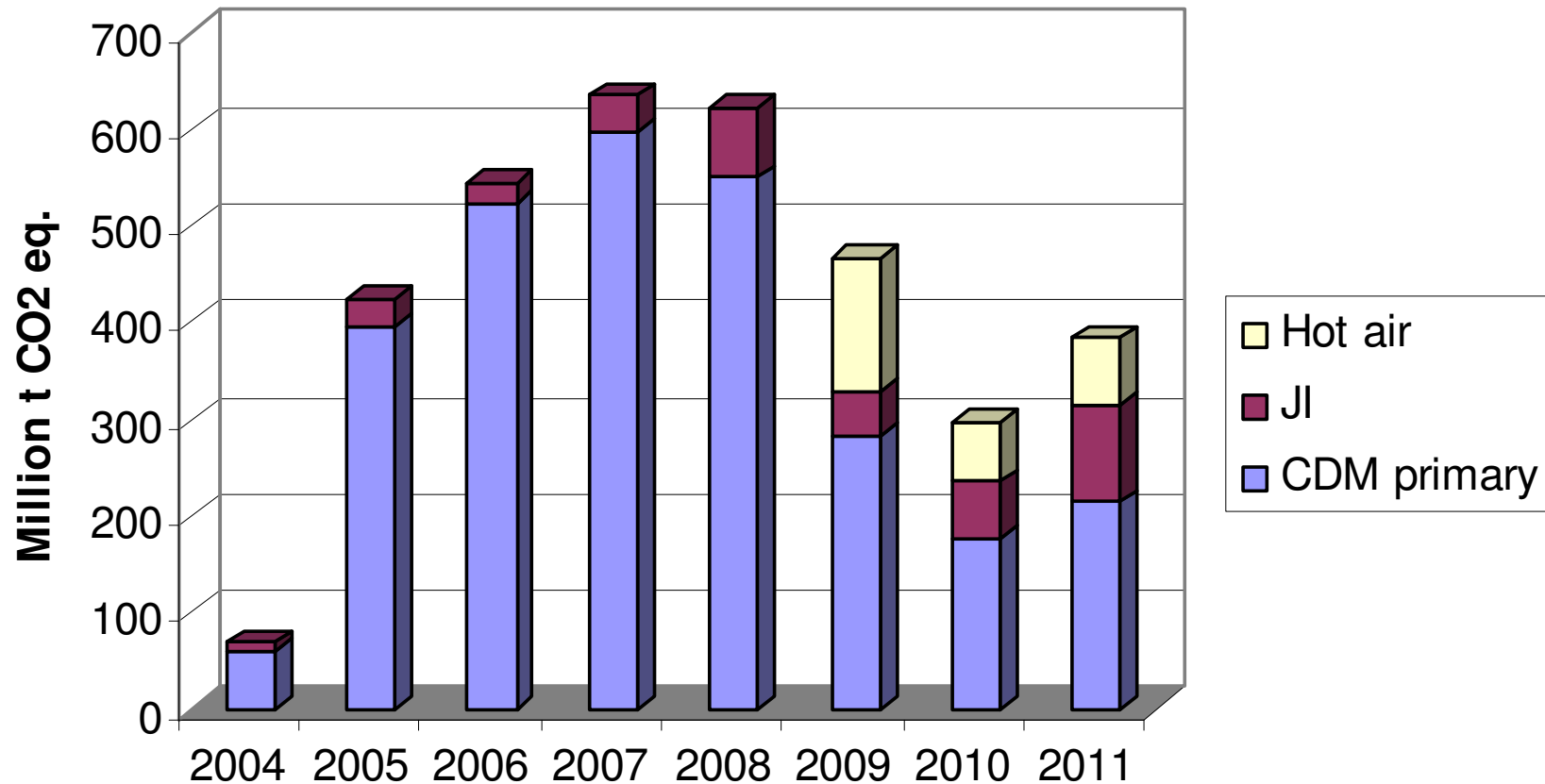


Data source: Point Carbon various years, World Bank various years

# The role of project mechanisms



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Data source: Point Carbon various years, World Bank various years

# Two climate policy futures



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- *Unified world: Kyoto*
- Global agreement with global carbon currency
- “Gold standard” currency system
- Markets can perform



- *Fragmented world: Pledge & review*
- Country groups with distinct carbon market systems
- Hodgepodge of non-convertible currencies
- Markets underperform



# Durban's silver lining

- **For the first time developing and industrialized countries agree on a common approach!**
  - **Treaty by 2015, commitments by 2020**
- **China shows willingness to take up commitments**
- **But Copenhagen spectre looms**
  - **Bali Action Plan 2007 looked good ...**
  - **... but did not prevent Copenhagen failure**
- **What happens in the meantime?**
  -

... or just a vain hope?



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# Reporting and inventories



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- **Critical basis for all market mechanisms**
  - Especially if going beyond single projects
- **Biennial reports for all countries from 2014**
  - But updates for developing countries are contingent on funding from the North
- **ICA for developing countries**
  - Critical detail remains open – nature of review team
- **NAMA registry**
  - Essentially voluntary
  - Toothless like the “CDM Bazaar”?

# New Market Mechanism



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## - Principles

- Real, permanent, additional and verified mitigation
- Avoid double counting of effort
- Achieve a net decrease and/or avoidance of greenhouse gas emissions
- Used to meet part of developed countries' targets under the UNFCCC
- Top-down governance, but might include REDD and bottom-up approaches
  - Will be main contention for negotiation
- Rules to be agreed by COP 18
  - Likely to be interim step only



# Does GCF nurture markets?

- **Private sector facility**
  - Could co-finance projects under market mechanisms
- **Results-based approach**
  - Will GCF learn from the market mechanisms?
- **Payment for verified results**
  - Co-financing of projects under market mechanisms?
- **“Iron curtain” between public climate finance and market mechanisms seems to have opened**



## The intrepid core of Kyoto 2

- **Canada withdraws** from first commitment period just in time to avoid embarrassment
- **Canada, Japan, Russia and US** do not participate in second commitment period
  - End either 2017 or 2020
  - Commitments as per **Copenhagen pledges**
  - **NF<sub>3</sub>** is added to the Kyoto basket
  - **Accumulated hot air treatment** to be decided by **COP 18**
- **Current market mechanisms continue**
- **New market mechanism can be used for compliance but pays adaptation tax**

# CDM materiality



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- Relates to **verification** only, not to validation.
- A **tiered scale** is agreed
  - **0.5%** overestimation allowed for projects > 0.5 million t CO<sub>2</sub> eq. emission reduction per year
  - **1%** for projects between 0.3 and 0.5 million
  - **2%** for all large-scale projects below 0.3 million
  - **5%** for small-scale projects
  - **10%** for micro-scale projects
- These thresholds will make requests for review of issuance **a rare exception**
- Significant **simplification** of CDM

# CCS in the CDM

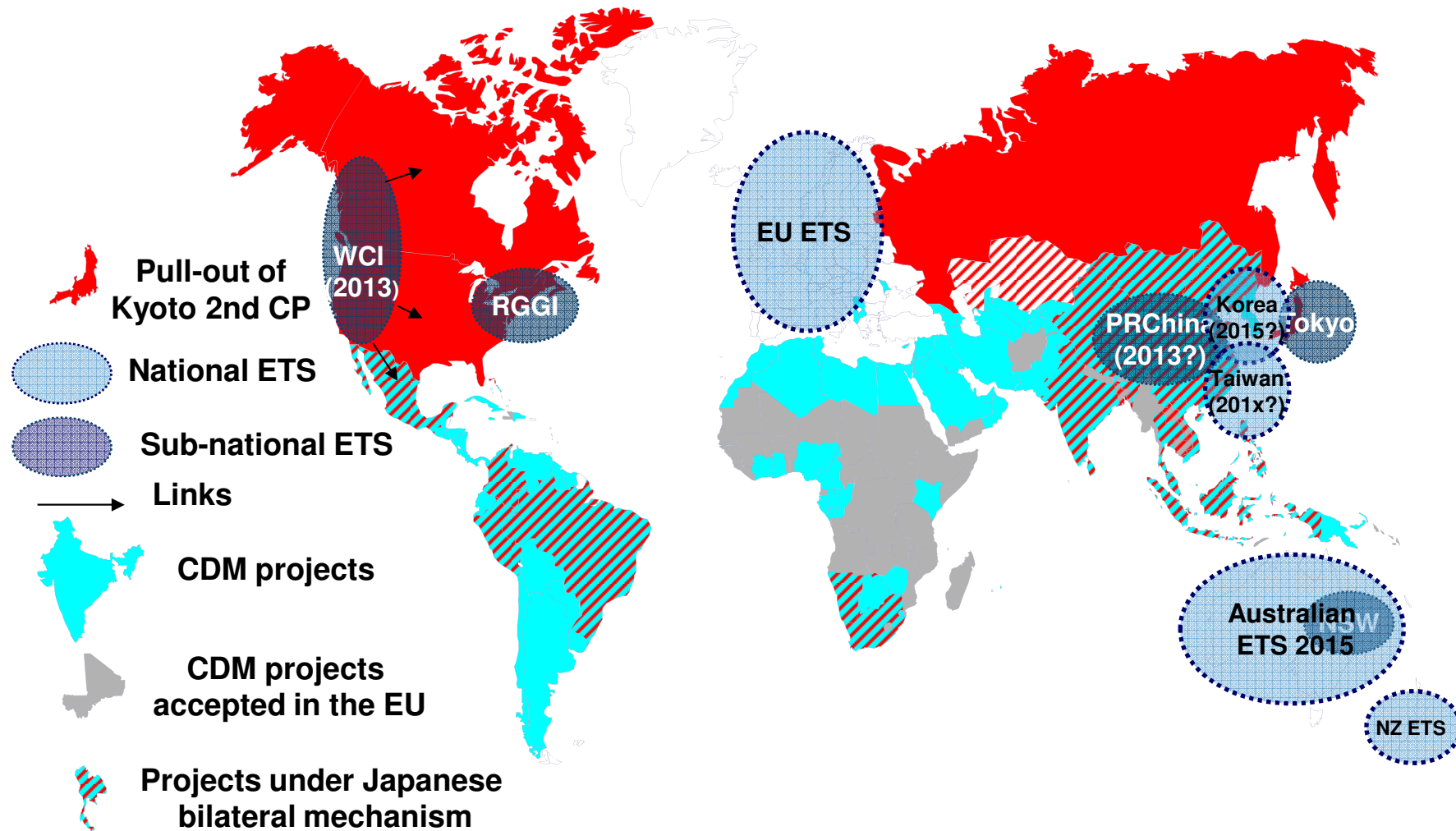


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- DNAs need to generally authorize CCS projects through a letter to UNFCCC explaining CCS legislation
- Liability for 20 years after the crediting period is to be taken either by the host or buyer country
- Verification is to be done at least every 5 years after the initial verification
- 5% of issued CERs are kept on a reserve account to cover seepage liability
- Host countries have to take over liability after the end of the 20 year period, but only if it was proven during 10 years that no seepage has occurred
- Project developers have to prove in the PDD that they have sufficient financial cover for their liability

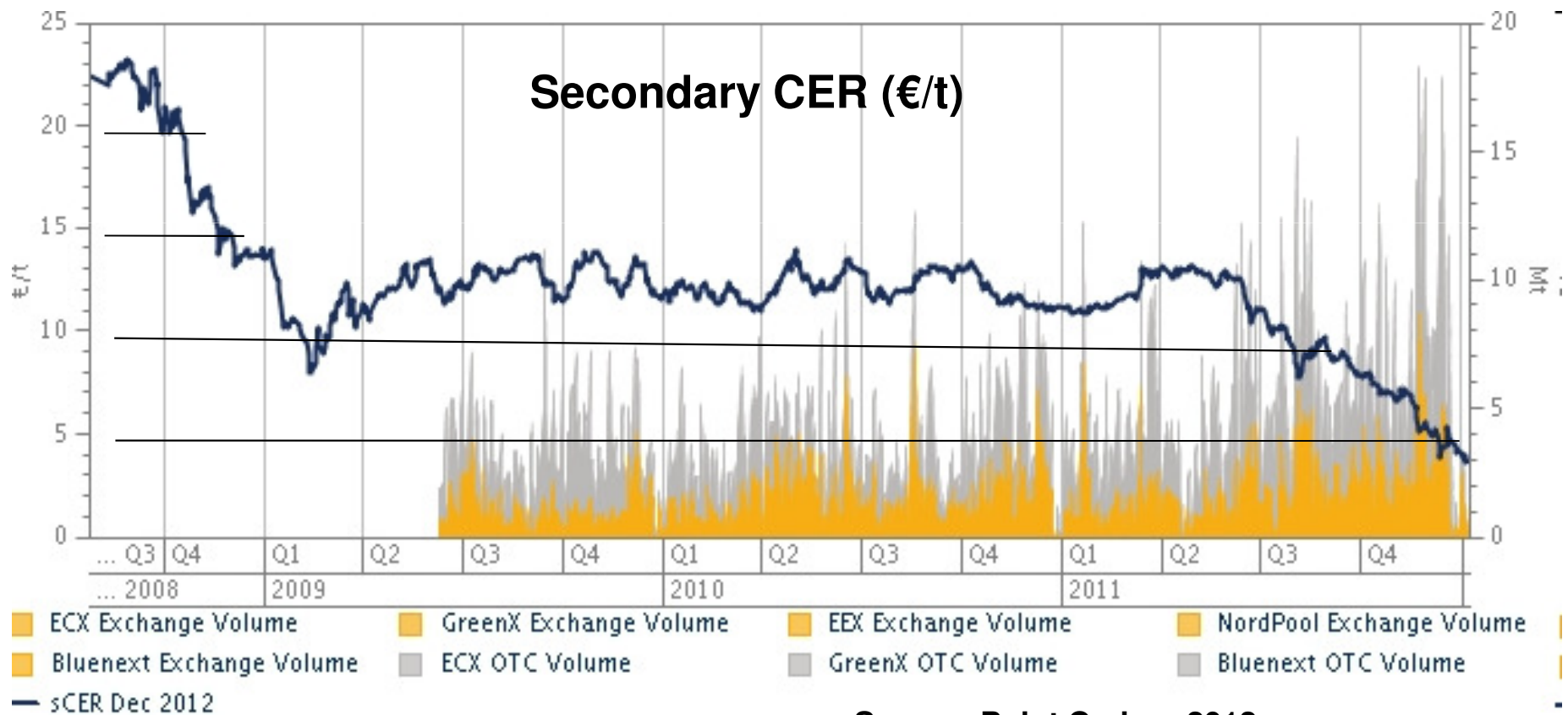
# Ongoing fragmentation



# Unabated price meltdown



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Source: Point Carbon 2012

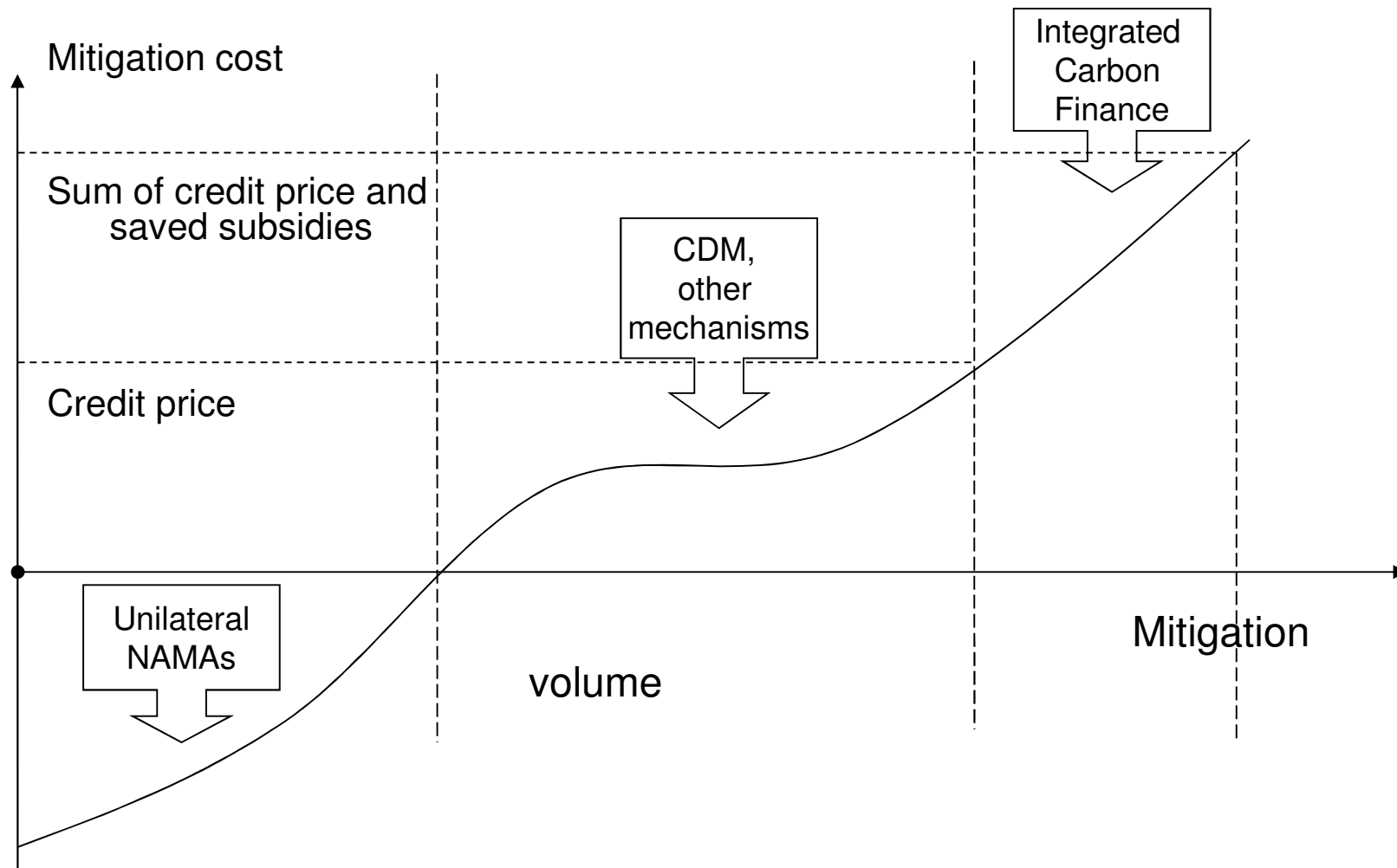




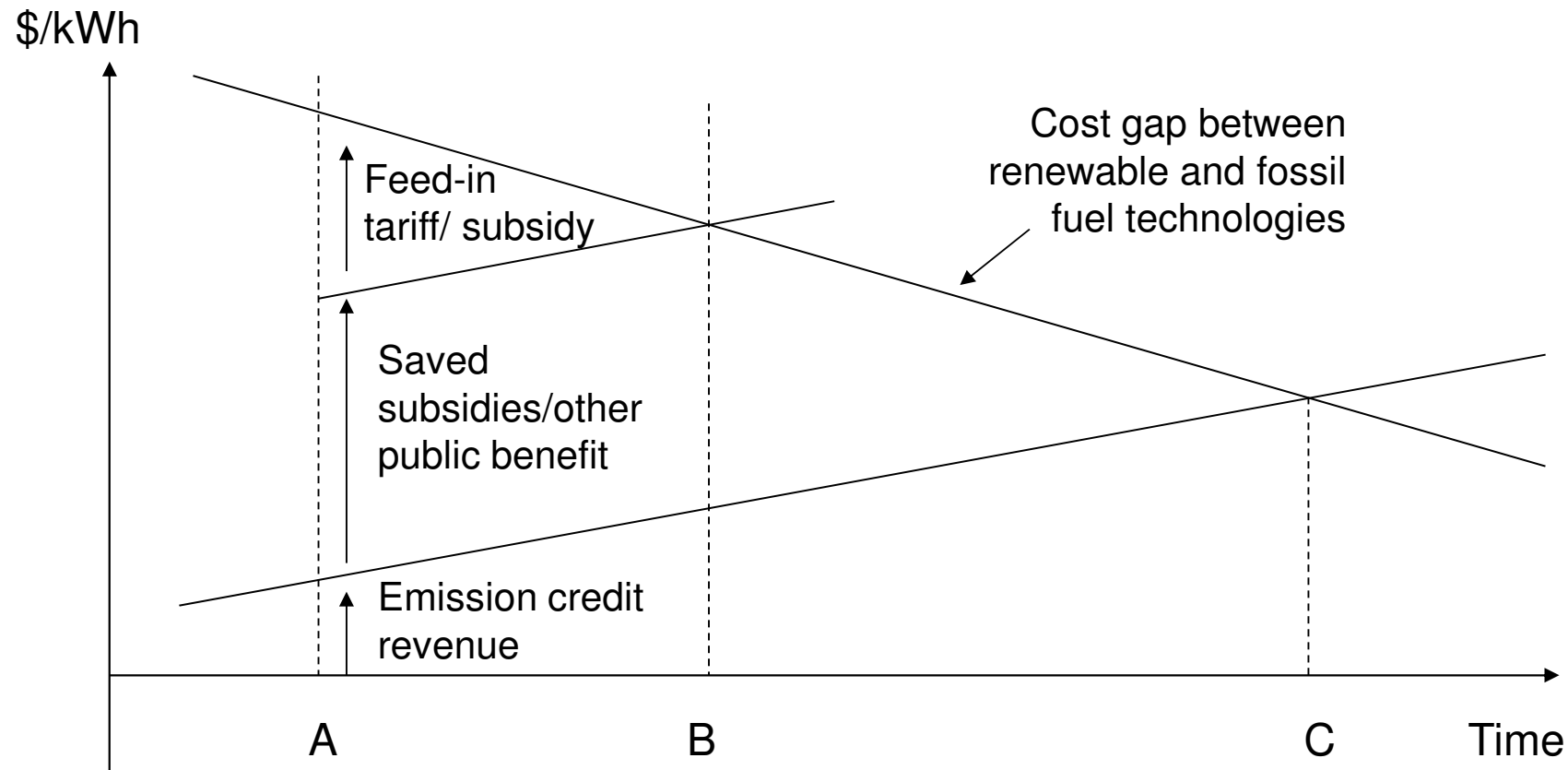
# Three time slices for markets

- **Until end 2012**
  - **Last minute CDM frenzy** to get into the EU ETS
  - Increasing competition from **laundered hot air**
- **Medium-term strategy until 2015**
  - **“Hibernation”** of established mechanisms
    - Can we sustain a **critical mass of know-how?**
  - **“Hundred flowers bloom”** phase of new mechanisms
  - **Test integrated carbon finance** incl. NAMA crediting
- **Post-2020 preparation**
  - Prepare a **credit banking strategy** for advanced developing countries to cushion the transition towards commitments

# The tiers of mitigation



# Integrated carbon finance



# Critical research topics



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- **Evaluation of experiences with existing mechanisms**
  - **Assessing CDM with quantitative methods**
- **Assessing the competitive landscape of post-2012 market mechanisms**
  - **Key design features to ensure effective mitigation**
    - **Private sector incentives**
  - **Political economy of market mechanisms**
- **The role of market mechanisms in a fragmented climate policy world**
  - **Arbitrage, efficiency loss and protectionism**



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**Thank you!**

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