

What next for the global carbon markets?

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In the next 15 minutes...

- State of the CDM
- New crediting mechanisms
- Emerging Emissions Trading Schemes
- Where next?

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News

Policy

09 Sep 2010 05:59 PM EST

Chile to weigh options for domestic ETS



Chile's energy ministry selected a consultancy to help it decide whether to launch a domestic ETS.

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EU ETS



09 Sep 2010 01:00 PM EST

EU ETS could increase CO₂ output without tighter supply

The EU ETS could become a hindrance unless the bloc lowers its cap, a new report said.

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International policy



09 Sep 2010 04:54 PM EST

US union challenges China over clean tech at WTO

A US labour union has charged China with cheating international law to boost its clean energy sector...

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Current status of CDM

- Low CER issuance due to EB bottleneck
 - Registered projects set to reduce by 1,862 million by 2012
 - Issuance: 138 million in 2008, 123 in 2009, **116 Mt (our est) in 2010**
 - We still believe in close to 1,000 million CERs to be issued by 2012
- Recent UNFCCC Secretariat clarifications on CDM post-2012
 - Although the emission targets of Annex I Parties are negotiated on a commitment period by commitment period basis, the CDM itself is a long-term mechanism that continues from one period to the next, and is not tied to specific commitment periods. This continuity applies to all aspects of the CDM.
- Inflow of new projects continues but investors and compliance buyers perceive CERs as more risky due to post-2012
- Some investors are also looking into alternative offset types

pCER price drivers: post-2012

- Policy
 - CDM until 2012: Framework known, still uncertainties
 - EU eligibility, e.g large hydro projects
 - EB policy, e.g Chinese wind projects
 - CDM reform
 - CDM after 2012: Framework unknown, policy signals/scenarios being revised continuously
 - Eligibility under UNFCCC
 - Eligibility in existing and upcoming trading schemes

Eligibility post-2012

Parameter	UN/CDM eligibility	EU ETS eligibility
International negotiations	CDM expected to continue regardless of binding post-2012 emission targets	Restrictions on eligibility more likely under EU at 20 % than 30 % target
Vintage	Reductions before 2013/first crediting period are certain. Later reductions are less safe	Reductions pre-2013 are safest, projects registered before 2013 are less safe, projects registered after 2013 are least safe
Project type	Current project types expected to continue, might be more restrictions on how many CERs that can be produced from HFC and adipic	Renewable projects are safest, HFC-23 projects and adipic acid projects are least safe
Host country	Most advanced CDM host countries might be phased out of CDM towards 2020	LDC and developing countries taking on reductions commitments are safest

Eligibility – where?

- Which CERs will be eligible under a multi-lateral system post-2012 (UNFCCC)?
- Will CERs be eligible in upcoming trading schemes?
 - US, NZ, AUS, S Korea and JPN
- Which CERs will be eligible in existing and upcoming trading schemes?
 - Qualitative restrictions from 2013 . If the EU is not satisfied with the new credit rules, additional restrictions will be set for the EU ETS
 - Qualitative restrictions also considered by US

Offset markets going forward

- 2nd commitment period Kyoto seems unlikely
- Several non-binding treaties will create **flexibility** on
 - Targets (how binding, absolute vs relative, how MRV should be carried out)
 - Which offsets to use
 - But UNFCCC will play a role in approving commitments and "DOEs"
- CDM will survive but we will see **other offset types** that can be used for commitments (look to Japan...)

New mechanisms?

- **NAMAs** (Nationally Appropriate Mitigation Actions) for all countries
 - Countries get credit for policies and measures rather than specific projects
 - Contentious: to what extent are actions “creditable”? Just recognized?
- **REDD** (Reduced Emissions from Deforestation and Degradation)
 - Countries reduce their deforestation rate, calculate the resulting emissions “saved,” get credit for the difference.
 - Where to set deforestation baseline?
 - Fund-based or market-based approach?
 - US climate change bills contained provisions for BOTH
- **Sectoral credits** for advanced developing countries
 - Set targets or benchmarks by sector (e.g. steel, cement, electricity)
 - Step toward national targets for China, India, Brazil, Mexico, etc.
 - Contentious: set “no lose” benchmarks or binding targets with crediting?

Questions remain

- Can NAMAs and REDD be credited?
- If not, what role for the private sector?
 - Verifiers
 - Finance
 - Project developers
- What is lead-in time?
 - REDD+ by 2012
 - NAMA pilots by end 2011
 - If crediting, then start in 2013...?
 - If eligible for compliance, from 2014...?

Early mover
advantage
=
opportunity for high
profit margin
=
high risk?

South Korea: An ETS in the works?

- Copenhagen Accord target: 30% below BAU by 2020
- Framework Act on Low Carbon, Green Growth (Apr-10)
 - Passed 30 Dec 09
 - Reduce energy dependence; reduce GHG emissions; build clean-technology industry.
 - Earlier: 2007 Voluntary Korea CER program
- Greenhouse gas and energy target management scheme
 - List of 374 companies published Sept 2010
 - To cover more than 60% of total South Korean emissions
 - Power, steel, petrochemicals, cement, refineries
 - Forecast trade volume: US\$0.4bn in 2013; US\$1.6bn in 2020 (source: Presidential Commission on Green Growth)

China ETS?

- Copenhagen target: reduce the carbon intensity of its economy 40-45 per cent below 2005 levels by 2020.
- Current target: improving energy intensity by 20 per cent from 2005 levels by 2010.
- June: inter-ministerial group led by the NDRC had agreed to introduce a pilot ETS within the next five years
- Central government considering regions with a per capita GDP above \$10,000 as participants in the pilot scheme. (Jiang Zhaoli, NDRC)
- Too early for China; needs improved methodologies for gathering emissions data first. (Xie Zhenhua, vice director of the NDRC,)
- March 2011: 12th 5-year plan to be announced

ETS coming up in Japan?

- **Climate law**
 - 25% by 2020% is conditional, 80% by 2050 and 10% renewable by 2020 are not
 - Measures mentioned: Mandatory ETS, green taxes, feed-in tariff
 - Passed cabinet and lower house in spring
 - Needs new vote due to intervening upper house election
 - Governing DPJ has majority in Diet lower house but not in upper house
- **Design of ETS**
 - MoE to bring forward proposal within one year
 - Sectors to be covered and their overall target
 - Emitters of >10,000tCO₂e/average of several years
 - Absolute vs. intensity based targets; direct/indirect reporting for power sector
 - Use of international credits
- **ETS likely**
 - Start date: 1 April 2013, could be delayed to 2014
 - Question: what type?
 - "We are aiming to pass the climate bill at an early date:" Env. Min. Matsumoto

Australia: Election; new push to price carbon

- Carbon Pollution Reduction Scheme (CPRS) fails 3 times in Senate
- Federal election 21 August
 - Labor cabinet depends on Greens and independents in House
 - Greens hold balance in Senate
- New Climate Change Committee 28 September
 - “The Committee will start from the position that a carbon price is an economic reform that is required to reduce carbon pollution...”
 - Headed by PM Gillard
 - Meetings until late 2011
- State level: New South Wales Greenhouse Gas Abatement Scheme (since 2003) – going national?

Where do we go from here?

- Next UN climate meeting: Cancun, Mexico December 2010
- More dialogue at the bi-and multi-lateral level
- Biggest emitters (BASIC countries, US, Japan and Europe) work out a deal?
- Regional emissions trading programs take the spotlight – questions about linking
- Future of fragmented emissions markets:
bilateral/project-based markets developing in Latin America, Asia

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