Way forward after Copenhagen

Outcome of COP15, implications for CDM project developers

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Copenhagen: a success ...

- ☺ All Annex I countries and major developing countries have expressed emission reduction targets
- ☺ Political agreement on two degrees
- ☺ Voluntary quick start funding packakge and a longer-term funding target
- ☺ Some practical CDM reforms

... or a failure?

- ☹ Status of the Copenhagen Accord remains unclear
- ☹ Confused situation after (and in...) Copenhagen, no clear road map
- ☹ No strict and binding emission reduction targets
- ☹ Current national targets not in line with the two degrees global target
- ☹ No real solutions to funding issues or market mechanisms
- ☹ CDM still needs a major reform

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CDM reform: agreed issues in COP15

- A process that allows project developers and stakeholders to appeal against board decisions
- A review process that would see the secretariat conduct the work on reviewing projects
- Delayed registration fee for projects located in countries that have less than 10 projects registered and loans for CDM project development in these countries
- A simplified additionality demonstration for RE projects smaller than 5 MW and EE projects less than 20 GWh per year
- Improved co-operation between the board and stakeholders by establishing a process to allow direct communication
- Improved monitoring of auditors of emission reduction projects.

➡ *The CDM Executive Board requested to enforce*

CDM reform: open issues

- The possible inclusion of additional project types (CCS) into CDM
- Standardized baselines (positive signals though)
- What to do with CDM projects in host countries that take a commitment (conversion to JI?)
- The formal position of CDM is unclear, all agree that CDM continues post 2012 but the shape and role of the mechanism remains open, e.g.:
  - The future role of Kyoto Protocol
  - New additional mechanisms
  - US approval

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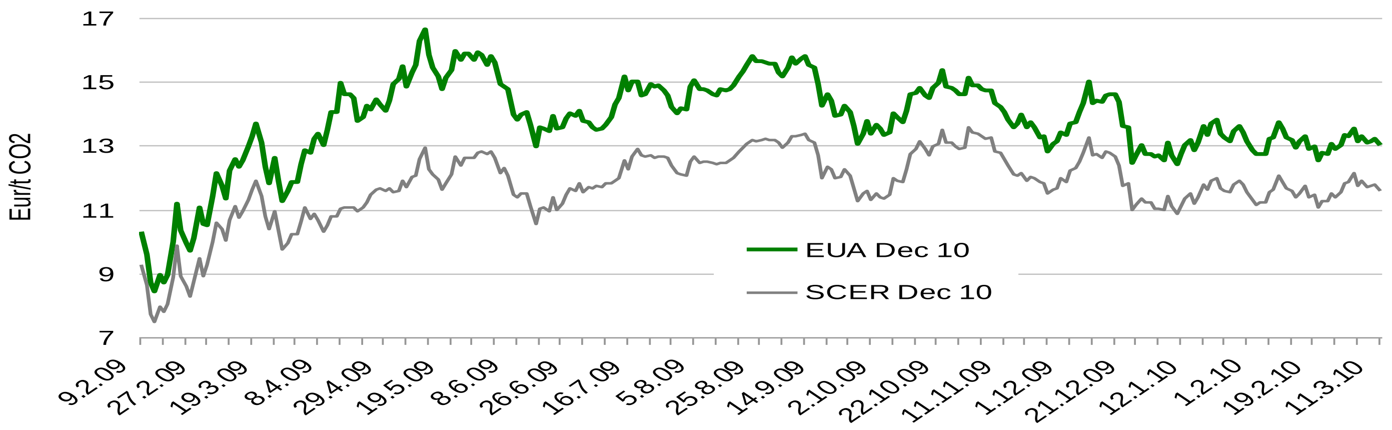
EU ETS driving the CER demand

- The EU ETS continues to drive carbon market:
  - 75% of the total global market in 2009 (€ 70 billion of € 91 billion)
  - CER market €17,5 billion (of which 84% secondary transactions)

➡ *Secondary CER is an established product alongside with the EUA*



- For Phase 2008-12 the limit for CER use is 270 Mt/year but for Phase 2013-20 the limit is decreased:
  - Under 20% scenario around 50 Mt/year
  - Under 30% scenario around 120 Mt/year
- Total CER demand for 2008-2020 is around 1700-2500 Mt

CER-rules in the EU ETS post 2012

- The EU has approved a more ambitious legislation for EU ETS 2013-2020 thus the continuation of market (and CER demand) is guaranteed.
- Some uncertainty remains due to international negotiations:

Framework	No Global Agreement; EU 20/20 target	Global Agreement; EU 20/20 target	Ambitious Global Agreement; EU 20/30 target
Legislation	The effective Directive 2009/29/EY	Existing legislation will be amended	Existing legislation will be amended
Limit for the use of credits	Same as Phase 2 level	Same as Phase 2 level	The level will be increased to cover half of the additional reductions (indicative)
Quality of credits	Same as Phase 2	Compatible with the requirements of the global agreement	Compatible with the requirements of the global agreement
Host countries	Must have a bilateral agreement with the EU	Must have ratified the global agreement	Must have ratified the global agreement

- In the negotiations the EU is looking for CDM to become increasingly a LDC mechanism and sectoral scopes to replace CDM
- Credits from LDCs are favoured
- Some additional qualitative restrictions are possible (HFCs?)

Implications for CDM project developers (1/2)

- Almost all want CDM to continue, but the structure, rules, eligible countries and project types still unclear post-2012
- In any case projects can be registered until the end of 2012, and they will have their crediting period
- The EU demand is there, projects registered by the end of 2012 ”should be” safe
- EU unlikely to increase its reduction target from 20% to 30% before more clarity on global level
- EU unlikely to fix the EU ETS details for CER import before more clarity on global level

- *If EU ETS demand continues to drive the CDM market the EUA/CER spread will probably increase*
  - *Import limits & uncertainty*

Implications for CDM project developers (2/2)

- Current demand has not changed much compared to time before COP15
- But when and where there will be post-2012 demand is more uncertain
- Regulatory risk of post-2012 CDM increased to some extent in COP15
- Important to address possible successors of CDM in post-2012 ERPAs (CER sales and purchase agreement)
  - The ”Unit” in ERPAs should be defined more generally than ”CER under the KP”
- When selling post-2012 CERs to EU ETS, the eligibility risk of ERs at the time of delivery is a crucial issue
  - Affects the unit price of CER as well as bankability of the ERPA

- *A strong positive signal for small-scale renewable energy and energy efficiency projects in countries with small number of CDM projects!*

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Concluding remarks

- The major issues are still open and procedural situation is unclear
- The most likely outcome is still a global binding agreement
  - If it is not based on Kyoto Protocol it will take a lot of time
- Is the UN anymore the forum where progress is made?
  - Will the UN process be able to concentrate in the issue itself and not so much in the procedural matters?
- Much contribution is expected from the private sector; negotiations should address this properly
- *Need to change the paradigm?*

  NOT necessarily
  - ”Let’s agree everything (or alternatively nothing) on a global level because the challenge is global”

  BUT instead (or in addition)
  - ”Let’s agree something on some forum that enables real action somewhere”

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