Purchasing and cancellation of CERs & Reinvestment of CER levies

Side Event: How to move the CDM beyond offsetting in a post-2012 climate regime?

6th June 2009, Bonn

Stefan Wehner
Perspectives GmbH, Hamburg – Zurich

Implementation options

- Purchase and cancellation of CERs
  - By host countries
  - By project types or technologies

- Reinvestment of CER levies in emission reduction projects
  - In particular host countries
  - By project types or technologies

Purchase and cancellation of CERs

General description

- Defined **quantitative** CER purchase and **cancellation commitment** for countries with emission targets after 2012 (i.e. Annex I)
- Option allows to manage CDM demand by creating additional demand for
  - Projects from **certain host countries** (e.g. African countries) or
  - Certain **project types** / **technologies** (e.g. renewable energy projects)
- CER purchase commitment either constant or in-/decreasing, or as a total for the commitment period
- Annex I countries **jointly** provide the funding, based on negotiated contribution
- Organization through **central body** (e.g. operated by the UNFCCC)
- Purchased CERs transferred to cancellation account
  - No use for compliance or other offsetting purposes
- If CER supply is not sufficient to meet demand, purchase benefit can be banked within the commitment period

Cancelling CERs results in an additional global emission reduction equivalent to the CER-purchase

Option: Purchase and cancellation of CERs from defined host countries

- Quantitative CER purchase benefit limited to defined set of host countries
  - individually for single host countries vs. groups of countries

Option	Possible scope parameters (inter alia)	Pros (inter alia)	Cons (inter alia)
Single host countries, i.e. purchase benefits by individual countries	- Income level (GDP/cap or PPP/cap) - overall development level (e.g. Human Development Index (HDI)) - historical accumulated emissions - a combination of parameters	- High geographical target accuracy	- Increasing transaction cost (negotiations) - supply risk
Groups of countries, i.e. no quantification for individual countries within the group	- geographic region, e.g. Sub Sahara Africa (SSA) or all least develop countries (LDC) - development- or income level, e.g. „income groups“ by the World bank - a combination of parameters	- More flexibility for the purchasers - increased economic efficiency	- Lower geographical target accuracy

Classification of non-Annex I countries into groups for differentiated discounting of CERs

Group	GDP/cap	HDI	WB category	Countries (examples)
Non-Annex I developed Countries	> USD 10,000	> 0.85	High income	  
Advanced developing countries	> USD 5,000	> 0.7	Upper middle income	  
Other developing countries	< USD 5,000 > USD 5,000	> 0.6 < 0.7	Middle income	  
Least Developed countries	(*)	< 0.6	Low income	  

Certain purchase benefit are defined for different countries or groups of countries

perspectives climate change

Purchase and cancellation from defined host countries

Evaluation

Impacts on global GHG-emission reduction

- Amount of cancelled CERs = atmospheric benefit

Additionality-Challenge

- Does not ease A-assessment or eliminate non-add projects per se, but
- May allocate projects to countries with a higher A-likelihood (barriers)

Tech Transfer (TT)

- If purchase benefit is defined country-specific, TT might increase due to higher CER-demand from that country
- However, no specific support for TT, as purchase benefit is independent from technologies / project types

Sustainable Development (SD)

- No direct effect, as purchase benefit is independent of technologies / project types (except for increased number of CDM projects in a certain country)

Technical feasibility

- No additional data needed for allocation of purchase benefit.
- Option can be centrally managed/implemented by UNFCCC body → relatively low transaction costs

Reinvestment of CER levies in emission reduction projects

General description

- Additional **taxation of CER issuance** (uniform CER levy)
- Revenues used for **reinvestment in projects** in countries without emission limitations in post-2012 regime that do **not generate offsets**
- Functionality similar to „Green Investment Schemes“ (GIS), as set up by several Annex B countries
- Implementation:
  - CER tax on top of the adaption fee, i.e. x% of CERs issued subtracted at each issuance
  - Sale or auctioning of CERs by international body
  - Re-investment of revenues in emission reduction projects guided by COP/MOP

- Alternative: Different CER levy by project types
  - Possible influence on the system through **two levers**:
    - Lowering incentives of CDM projects offering low sustainable development benefits etc.
    - Reinvestment of tax receipts allows subsidization of certain other project types/technologies

perspectives climate change

Option: Reinvestment of CER levies in emission reduction projects by project types / technologies

- Revenues generated by CER levy are re-invested in certain project types technologies
- Qualified project types / technologies defined by Parties to the UNFCCC
- Eligible projects activities apply for receiving funds on a *first-come-first-serve basis*
- Eligibility of projects and allocation of funds; example:

Illustrative figures

Project type / technology	Option I (positive list)		Option II (revenue share %)	
	Share defined by Parties to the UNFCCC	Re-investment (€)	Share defined by Parties to the UNFCCC	Re-investment (€)
Project types / technologies with high sustainable development benefits				
Photovoltaic	n.a.	0 – 1.5 billion	5%	75 million
Wind energy	n.a.	0 – 1.5 billion	10%	150 million
Energy efficiency in buildings	n.a.	0 – 1.5 billion	10%	150 million
Solar water heaters	n.a.	0 – 1.5 billion	7.5%	112.5 million
Energy efficient lighting	n.a.	0 – 1.5 billion	7.5%	112.5 million
Type x	n.a.	0 – 1.5 billion	x%	x million

perspectives climate change

Reinvestment of CER levies … by project types

Evaluation

Impacts on global GHG-emission reduction

- Quantification of atmospheric benefit through re-invest difficult – proper monitoring rules should be established
- Timing of further emission reductions is postponed (re-invest)

Additionality-Challenge

- Does not ease A-assessment or eliminate non-add projects per se
- If levy is differentiated by project types, it may increase number of projects (types) with a higher A-likelihood

Tech Transfer (TT)

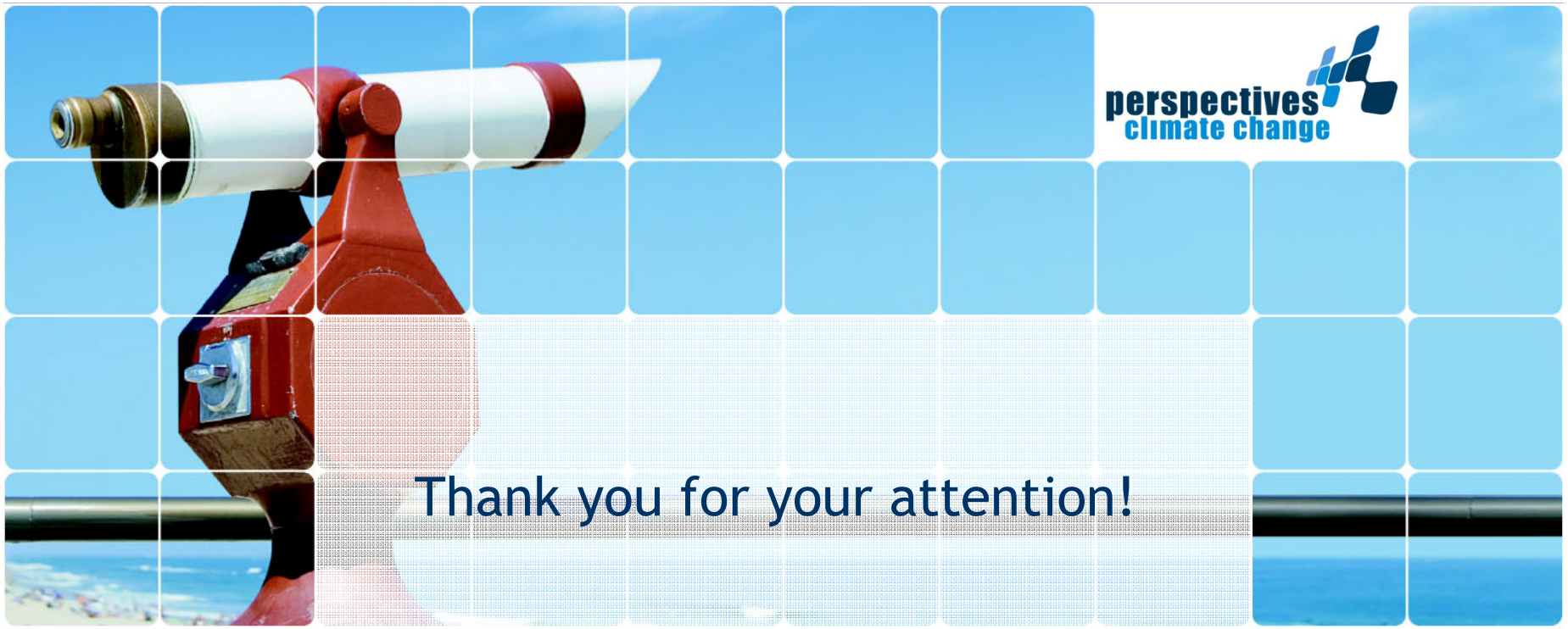
- Can support TT, as reinvestment is technology / project type – specific
- Double levers possible if levy is also differentiated by project type

Sustainable Development (SD)

- Can support SD, as reinvestment is technology / project type - specific
- But: SD requirements may differ from country to country

Technical feasibility

- No additional data needed if quantitative decisions are made politically
- High transaction costs likely for proper monitoring of re-investment



Thank you for your attention!

Stefan Wehner
Perspectives GmbH, Hamburg – Zurich
wehner@perspectives.cc