

**Wuppertal Institut**  
für Klima, Umwelt, Energie  
GmbH

## Assessing Options for Scaling Up the CDM

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### Scaling Up the CDM

- NAMA Crediting - Crediting of policies and measures that reduce emissions below BAU
- Sectoral Crediting - setting of sectoral baseline, not necessarily directly connected to certain activities or policies but usually proposed in connection
- Sectoral “No-lose” Targets - Negotiation rather than BAU
- Sectoral Trading - Issuance of trading units upfront - transition to cap-and-trade

## Why Scaling Up?

- Mobilise carbon finance on much larger scale than so far to cover incrementals costs
- Include hitherto underrepresented sectors (transport, buildings)
- Incentive for climate-friendly policies
- More environmentally robust than project-by-project approach

## Assessment Criteria

- Effectiveness, i.e. incentives generated
- Environmental Integrity

## Effectiveness - For Whom?

- Would operate at government level
  - ⇒ How to pass incentive on to investors?
  - ⇒ Free riding
- Capacity requirements
  - ⇒ Potentially further concentration on large rapidly industrialising countries

## Effectiveness - Strength of Incentives

- By definition incentive for climate-friendly policies and measures, sectoral transformation
- But would work only within a narrow band:
  - Baseline too weak: Fake credits
  - Baseline too stringent: No incentive to take action
- Non-delivery risks, price risks - Governments don't implement measures to speculate in carbon markets
- Price level result of supply vs. demand
  - Demand based on current pledges maybe 1-2 Gt in 2020
  - Mitigation potential 6-7 Gt in 2020

## Environmental Integrity (I)

- Is main difference between NAMA-based and sectoral approaches
- NAMA crediting:
  - What is a NAMA? - Specific investments (i.e. projects) or policies
  - What would additionality mean for policies?
  - EB decision: scenario without the policy - over time, everything will be additional
  - Crediting would require isolating effects of the policy from other effects
- Sectoral Approaches
  - Looking at whole sector rather than individual activities or policies
  - Acceptable to resolve additionality by setting strict baseline?

## Environmental Integrity (II)

- Baseline setting requires emission projections at sectoral level
  - Requires considerable data and capacity
  - More or less uncertain than determining additionality of individual activities?
  - Numerous examples where sectoral projections have diverged substantially from each other - and reality
  - Real-life example of a sectoral approach: EU ETS
  - Who would have incentive to set robust baseline?
- Monitoring will equally require considerable data and capacity
- Inventories for covered sectors should be as robust as Annex I inventories

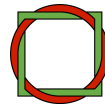
⇒ Hardly an option for the immediate future

## Environmental Integrity (III)

- IPCC ranges - both must be achieved
- Emission reductions achieved through carbon market mechanisms in non-Annex I countries contribute to the 25-40% reduction in Annex I, not to the “substantial deviation” required in non-Annex I.
- That is, ecologically speaking, offsets should only come from non-Annex I reductions that are surplus to the necessary “substantial deviation” in non-Annex I.
- Den Elzen/Höhne: 15-30% deviation from baseline - not at all clear where and how “surplus reductions”, which could then be used to offset AI emissions, are supposed to be generated.

## Conclusions

- Scaling up the CDM would require substantial MRV capacity building in non-Annex I countries  
⇒ Hardly an option for the immediate future
- No predictable financial flow
- Mechanism decoupled from those who make investments  
⇒ Strength of incentive rather doubtful
- Baseline setting and MRV of reductions may be much less certain than on project basis  
⇒ Danger of massive supply of fake credits
- Environmentally adequate global carbon budget so tight that no space to shift around emissions - unless Annex I countries take substantially more stringent targets  
⇒ Scaling up CDM may be a dangerous distraction from rather than way forward to finding means to enable required emission reductions in non-Annex I



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**Thank you very much for your attention!**



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