

Risks in carbon markets: lessons-learned from the Flexibility Mechanisms under the Kyoto Protocol

COP25, Madrid
3 December 2019

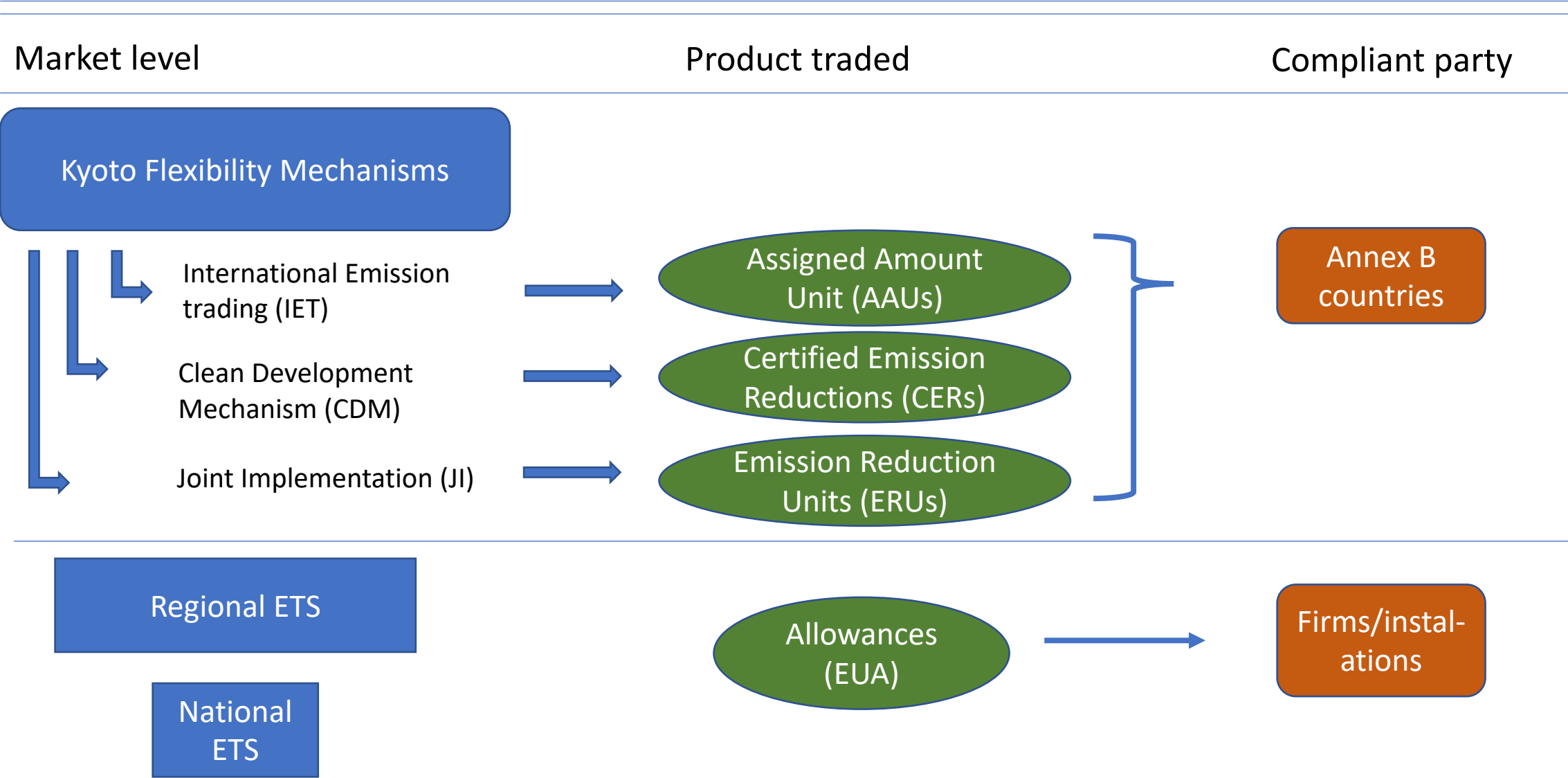
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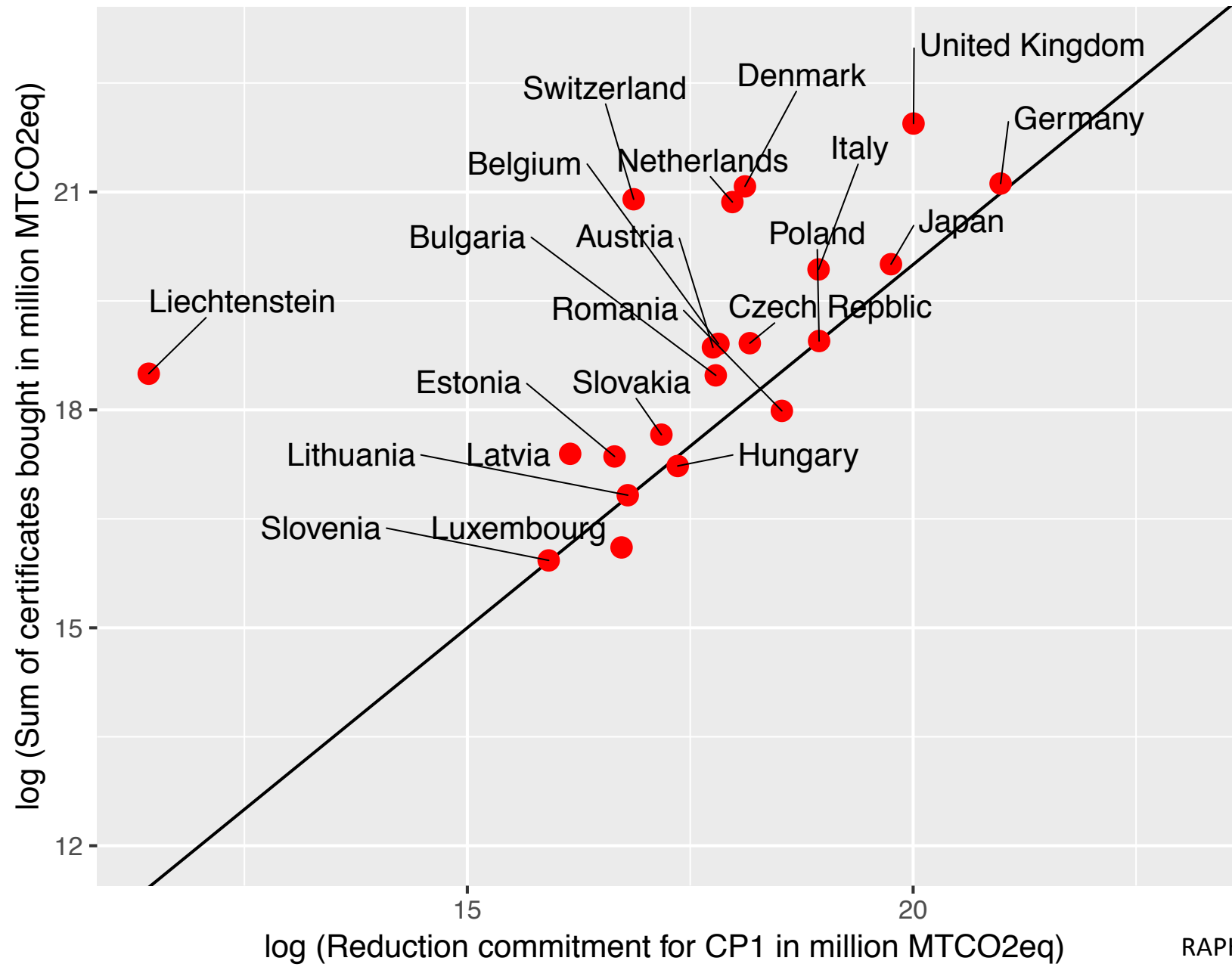
OFFICIAL UNFCCC SIDE EVENT

Overview of carbon markets



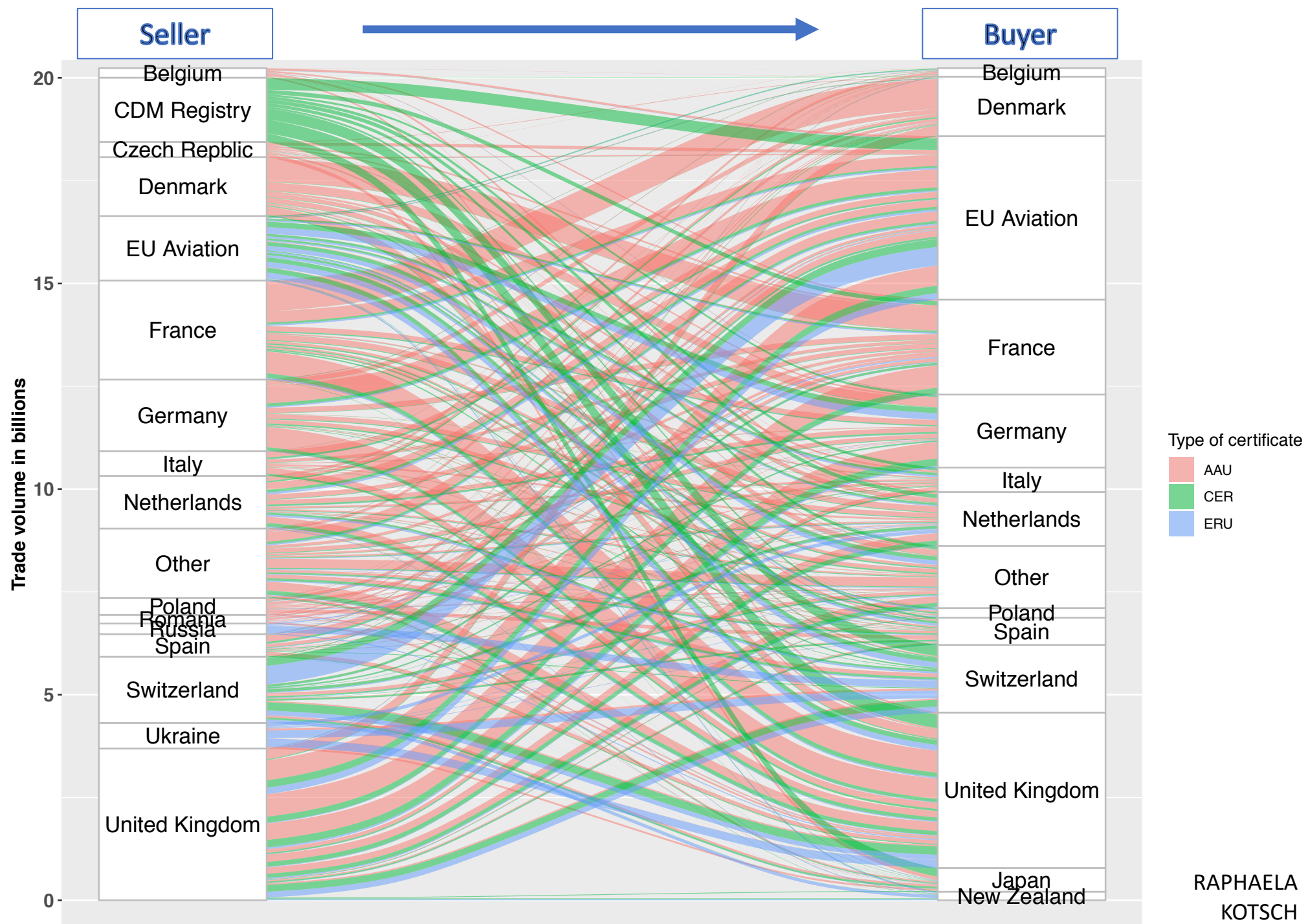
Trading behaviour during CP1 (2008-2012) – I

Kyoto targets vs sum of AAUs, CERs and ERUs bought 2007–2012



Based on data from the Institute for
Global Environmental Strategies
(IGES)

Trading behaviour during CP1 and CP2 (2008-2015)

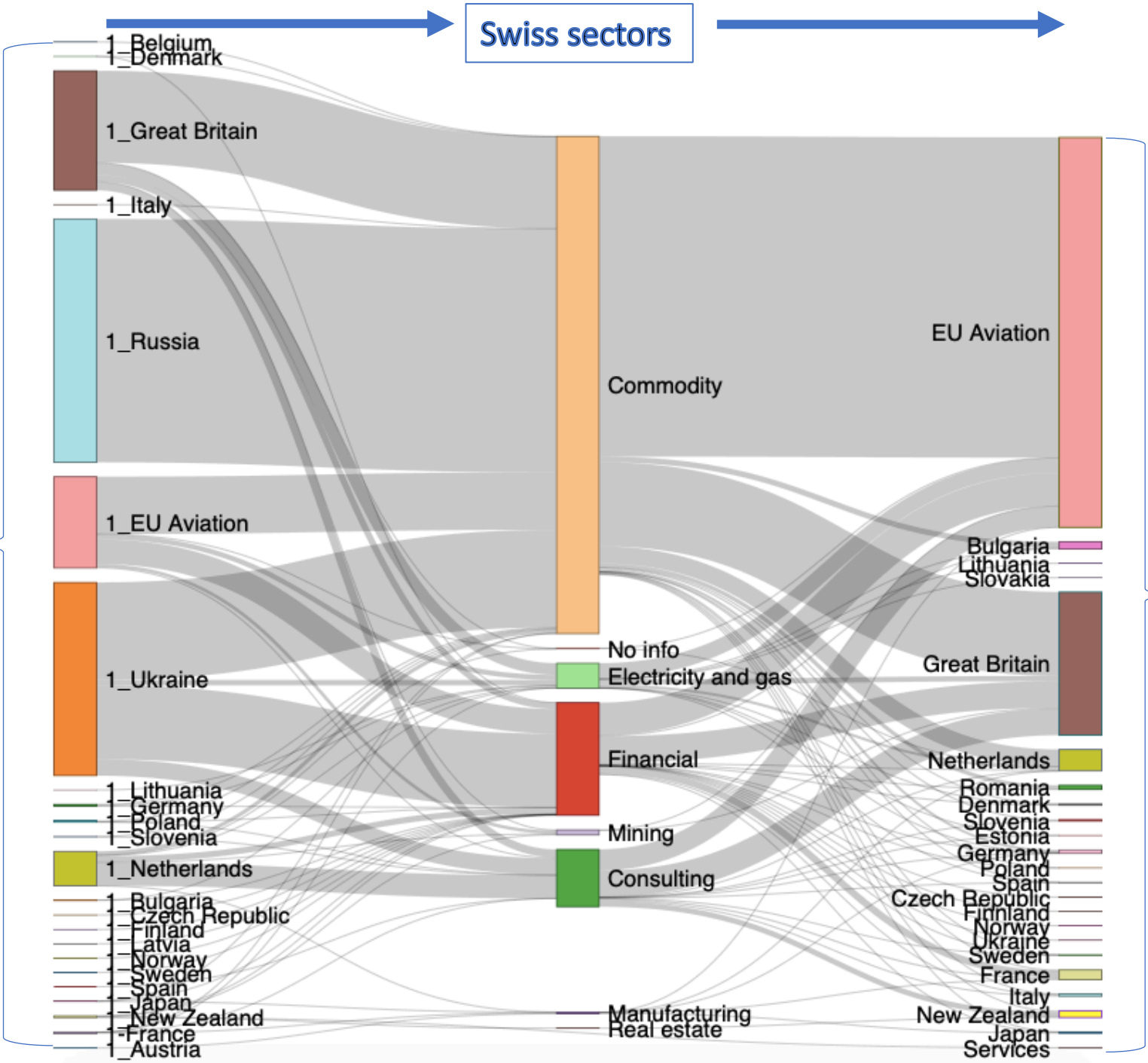


Based on IGES Data

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Flows of ERUs into
Swiss registry during
CP1 (2008-2012)

411 mil ERUs

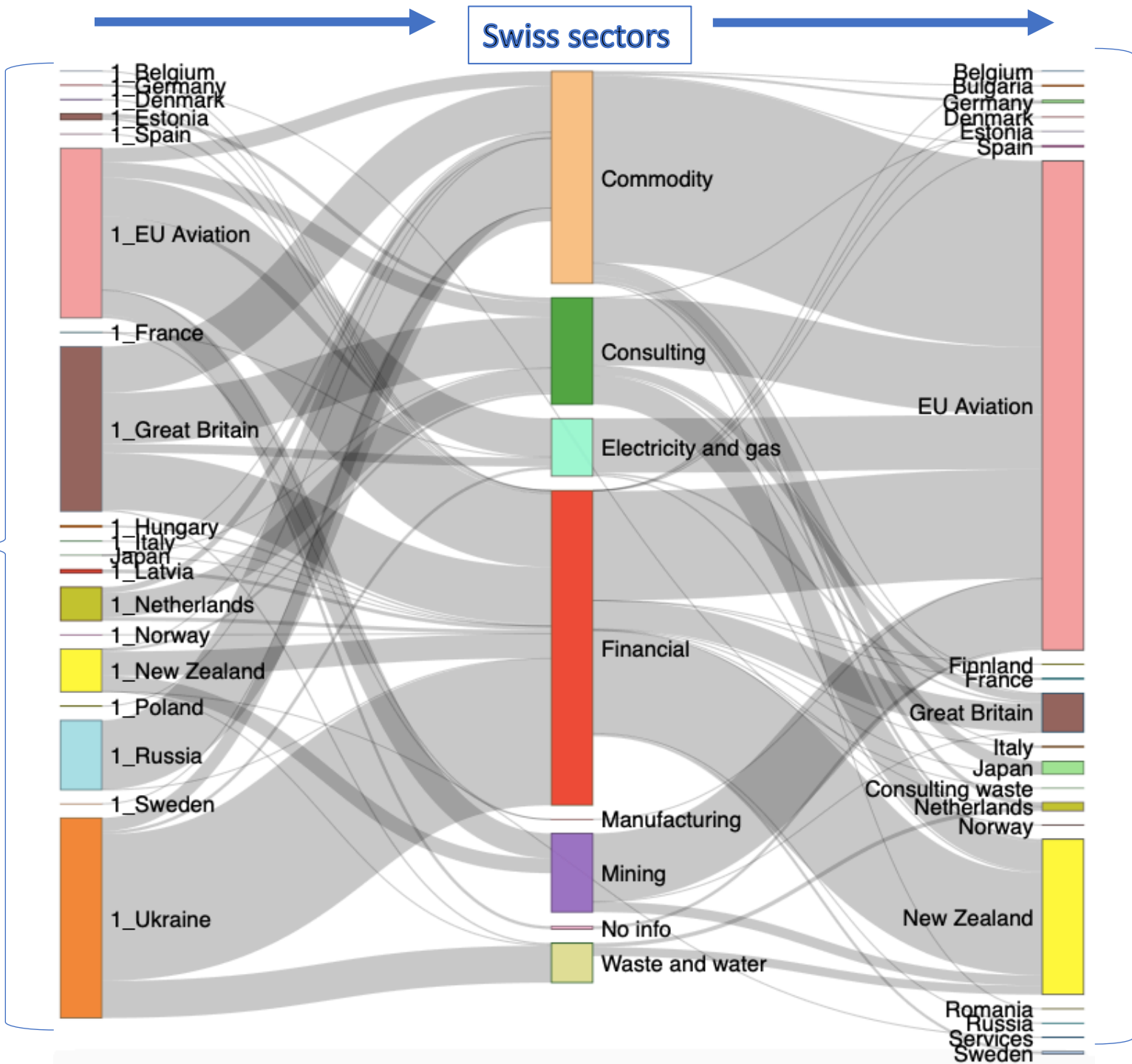


354 mil ERUs

Based on BAFU data (2019)

Flows of ERUs into
Swiss registry during
CP2 (2013-2015)

255 mil ERUs



263 mil ERUs

Based on BAFU data (2019)

Risks in carbon markets and where they arise

	National & regional cap-and-trade (use of intern. certificates allowed)	Intern. cap-and-trade market (AAU market)	Baseline-and-credit market (JI & CDM)
Compliant parties	Private entities	Governments	
Allocation		Over-estimated BAU emissions (hot air)	
Accounting		Double counting	
Project level			Perverse incentives Non-additionality Over-estimated baseline
Trading level	Abuses of the market: VAT fraud, cyber crimes (e.g. phishing), money laundering		

Lessons learned: insights for future carbon markets

- International carbon market:
 - Provisions in Paris Agreement that rule out the creation of hot air and bad quality tradable emissions certificates
 - International oversight body
 - Common rules for MRV and reporting of in-flows and out-flows
- EU ETS
 - Financial market oversight
 - Registry management and oversight: opening accounts, suspension of accounts, exclusion of persons with criminal records