Research on the future context of the CDM

UNFCCC Side Event: Insights from the research programme of the CDM Policy Dialogue

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Topics

- **Key results from three research papers:**

  - **Scenarios for the global carbon markets**

  - **Strengths and weaknesses of the CDM in comparison with new and emerging market mechanisms**

  - **Linking the CDM with new and emerging carbon markets**

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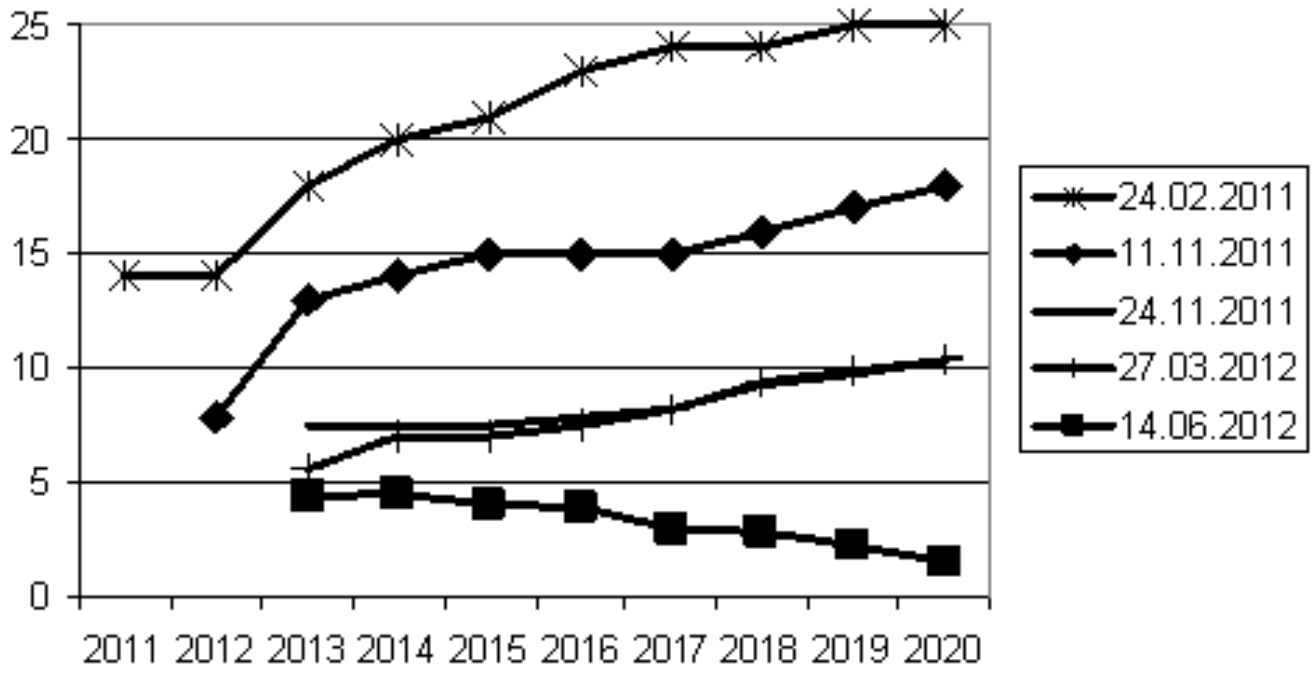
Scenarios for the global carbon markets – CDM in detail

CER market price: expectation…



Data source: Point Carbon

- > From heaven to hell within less than 18 months

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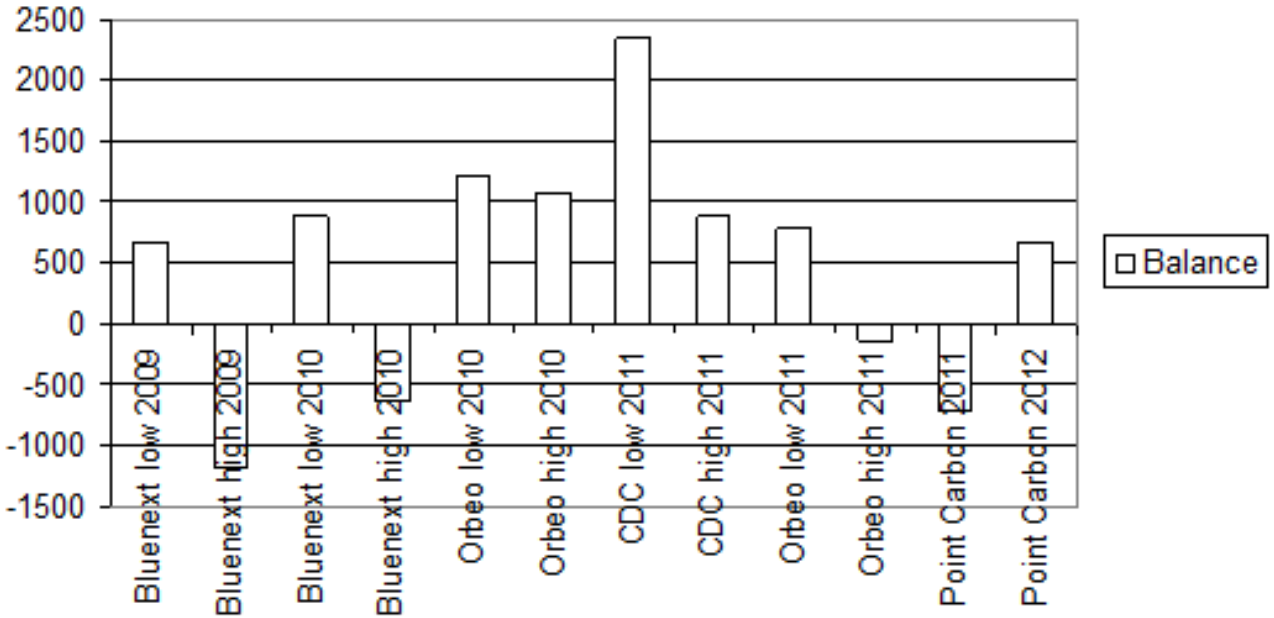
CER market price: reality

- > Constant decline since 2011, current price level no incentive for most CDM project types

The supply-demand balance of the CDM

- Scenario balance in the literature (million CERs until 2020, positive value denote a supply overhang)



-> Supply overhang is likely, which will weight on market price

Strengths and weaknesses of the CDM in comparison with new and emerging market mechanisms

Comparative evaluation of different mechanisms

	CDM	JI	BOCM	CAR	CFI	Gold Standard	VCS	Domestic trading	Sectoral crediting	NAMA crediting	Sectoral trading
Type	B-C	B-C	B-C	B-C	B-C	B-C	B-C	C-T	B-C	B-C	C-T
Environmental integrity	++++	+++	??	+++	+++	++++	++	++	???	???	????
Mitigation cost minimisation	++++	+++	+++	++	???	+	+++++	+++++	???	???	????
Transaction cost minimisation	+	+++	?????	+++	????	+	+++	++++	?	?	???
Effective governance	++	++	?	+++	???	++	+++	++	??	??	??
Capacity building	+++	++	++++	???	???	+++	+	+++	+++	???	???
Financial flows	++++	++	??	+	?	++	++	++	???	???	??
Tech transfer	++	++	????	??	??	++	++	++	??	??	??
Global emission reduction	++	++	??	+	+	++	+	+++	????	????	????

Challenge to compare mature implemented mechanisms and design ideas of future mechanisms

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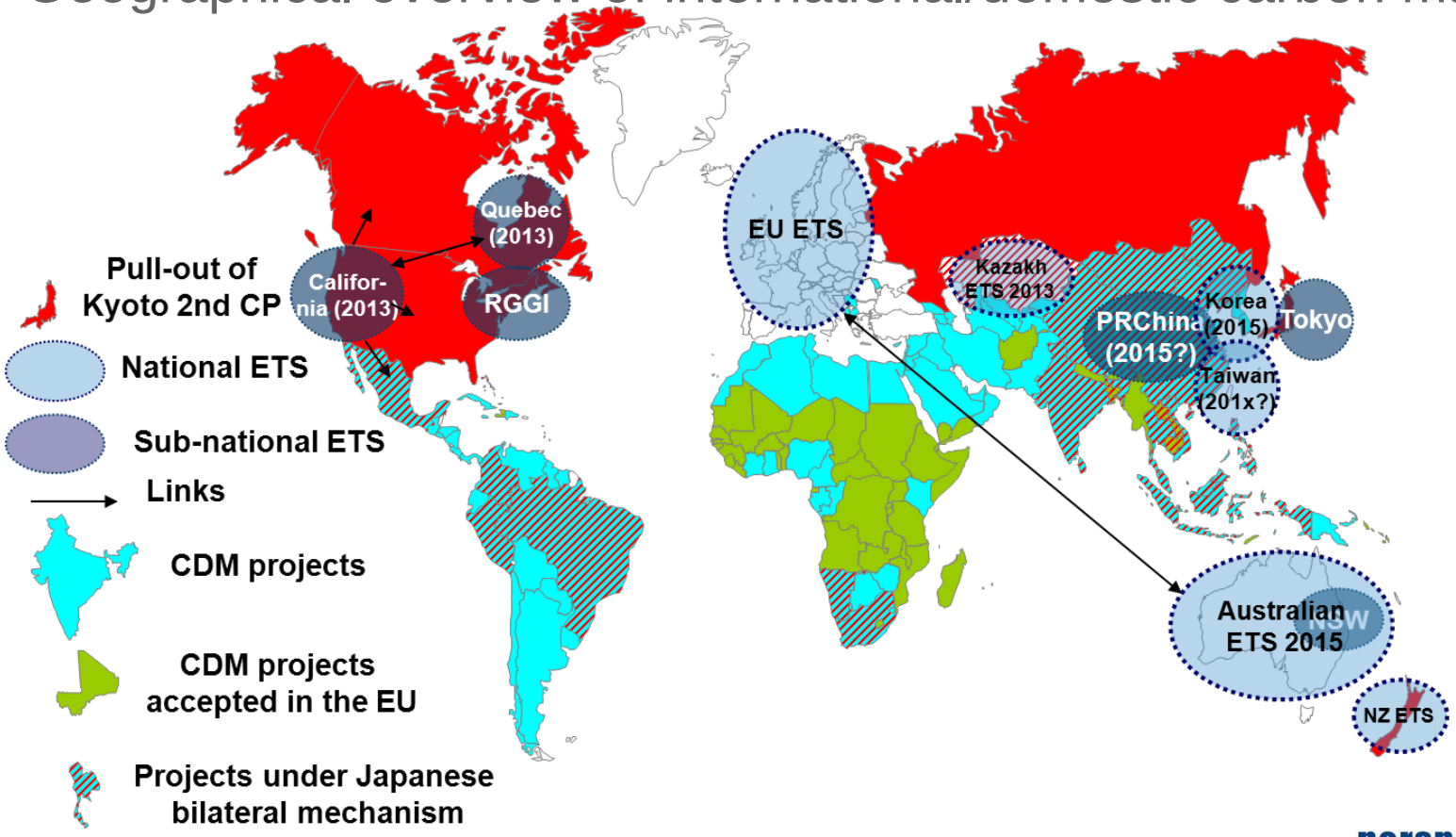
Comparison of different mechanisms: Key conclusions

- CDM:
  - High environmental integrity due to additionality safeguards
  - Mobilizing cheap mitigation but not in all sectors
  - Governance cumbersome but internal ability to reform
  - High transaction costs
  - Global emission reductions no explicit target (offset mechanism) but current contribution (removing barriers, reductions after end of crediting period) could be improved (e.g. lower baselines, discounting, cancelling, re-invest revenues (GIS))
- Emerging and New Market Mechanisms:
  - Domestic trading: Environmental integrity and contribution to reductions highly dependent on stringency of baseline (danger of overallocation). Excellent in mobilizing cheap reductions, fixed substantial transaction costs for setting up and governing the system, trading costs are low.
  - BOCM, voluntary offset schemes: Lower environmental integrity; lower transaction costs; limitation of technologies drives up mitigation costs and reduces tech transfer; lower emission reduction potential.

Linking the CDM with new and emerging carbon markets

The global carbon markets

Geographical overview of international/domestic carbon markets



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Fungibility of CERs in other markets

System	Quantitative limit	Project types excluded	Host countries excluded	Other restrictions	CERs generally excluded
EU ETS	Yes	Yes	Yes		
New Zealand ETS		Yes			
Australian ETS	Yes	Yes		Yes	
RGGI				Yes	
California					Yes
Tokyo					Yes
Quebec					Yes?

Critical issues that determine acceptance of CDM in domestic ETS:

Project eligibility, country eligibility, baseline, additionality, crediting period, stakeholder involvement and MRV

-> Standardization of the CDM and harmonizing market requirements will facilitate fungibility of CERs

Thanks for your attention!

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