

Why was the CDM more attractive than JI and AAU trading?

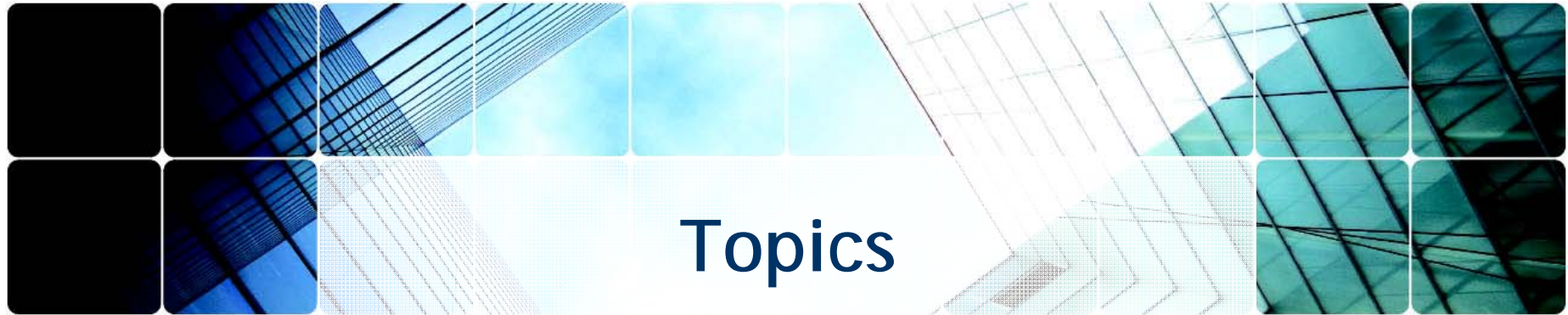
**Side Event: What has carbon trade taught us about
ecological markets?**

Cancun, 10 December 2010

Axel Michaelowa



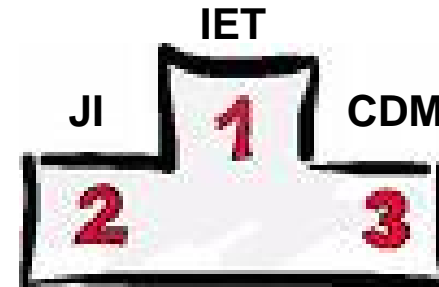
Perspectives, michaelowa@perspectives.cc



- Experiences from current market mechanisms regarding private sector involvement
- Design of new mechanisms and impacts on the private sector
 - Sectoral trading
 - Sectoral crediting
 - Sectoral aspects of CDM reform
- Way forward in 2011



- Two **project-based** mechanism (CDM and JI)
- One **government-government** trade based mechanism (IET)

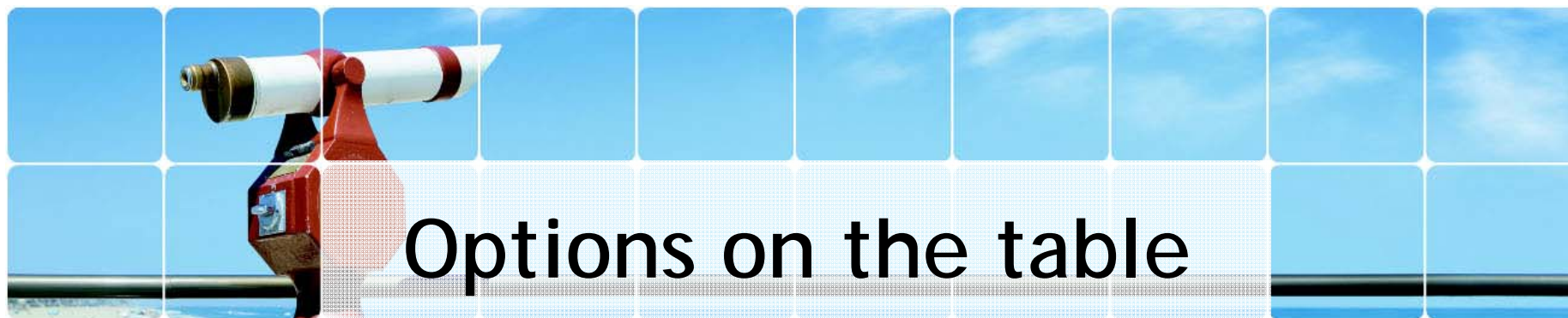


- **Expectations:**
 - IET **dominates numerically** due to high supply of hot air and **low transaction costs**
 - JI will be attractive, especially in **countries in transition**
 - CDM will fail as its rules are much too **cumbersome** and the **investment climate** in developing countries is dismal



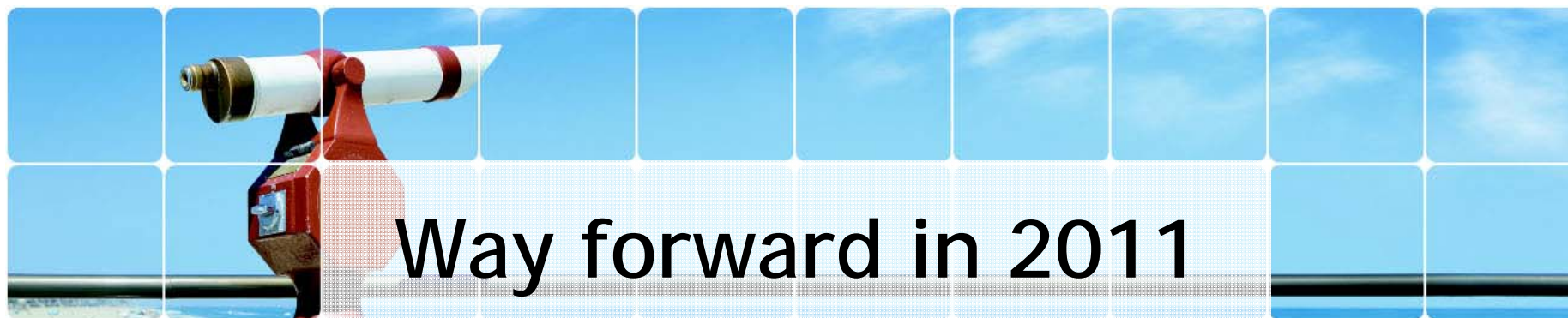
- **Results**
 - CDM **overwhelming numerical success** - 5000 projects, billions of CERs
 - IET **stalled** due to mistrust of buyers in government sellers. First transactions **tainted with corruption**
 - JI **latecomer** due to **late institutional decisionmaking** and **governmental ERU transfers**
 - Reason: **Clear incentives** for the private sector and **limited government interference** determine **success**





Options on the table

- **Sectoral emissions trading**
- **Sectoral crediting mechanism (SCM)**
- **NAMA crediting mechanism (NCM)**
- **Project-based crediting mechanism (CDM)**
 - **Discounting of CERs** according to degree of development of host country / project types
 - Generates emissions reductions by developing countries
- **Standardized baselines / benchmarks**
- **Incremental reform of institutions**
 - **COP decided on CDM reform**



Way forward in 2011

- New mechanisms only make sense under a **global regime with strong demand**
 - Strengthen pledges of the Copenhagen Accord
 - Clear statement on **fungibility** of units in a post-2012 regime
- Rational decision might be
 - Retain the **CDM** where it has been successful
 - Allow an “à la carte” **choice** of mechanisms
 - Introduce **sectoral / NAMA crediting** in sectors with **many dispersed sources** but **strong emissions growth**
 - **Mandatory switch from sectoral crediting to trading ?**