Wuppertal Institute
for Climate, Environment
and Energy

The Potential Role of the CDM Post-2012

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Starting Point

- The Challenge: Financing low-carbon development in the South. To stay below 2°, especially emissions trends in the rapidly industrialising countries need to divert from BAU by 2020

- CDM is seen by many as an important mechanism to contribute towards this aim

Assessing the Current CDM - Pros

- CDM has been made to function and is now developing very dynamically despite being first of its kind mechanism at international level with all the associated regulatory challenges
- CDM has mobilised billions of investments in very short timeframe
- CDM has successfully harnessed "seeking function" of the market

⇒ CDM has drastically changed emission trajectory in some areas (HFCs, N2O, Methane)

- CDM has significantly raised awareness for climate change issue
- CDM allows bottom-up initiatives from the South, not dependent on donors as traditional financing

Assessing the Current CDM - Deficits (I)

- Limits to **additional incentive**:
  - Projects need financing up front, CERs are generated ex post
  - High transaction costs, large part up front
  - Revenues risky: registration risk, issuance risk, price risk

  ⇒ Financial institutions don't take CDM into account

  - Especially for "nice" projects current CER prices are too low to improve profitability significantly

Assessing the Current CDM - Deficits (II)

- **Environmental integrity**: Additionality questioned

- **Environmental effectiveness**:

  - Even at best **zero-sum** game for atmosphere
  - Even good projects only of local scope, hardly any **sectoral transformation** (might change with Programmes of Activities)

- **Equity**: Concentration on large rapidly industrialising countries

- **Sustainable development**: Benefits of many projects put into question

What Are Sectoral Approaches?

- Policy 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

- Overlap with PoAs, which allow implementation of policies through a programme

- Overlap with Sectoral Targets, especially “no lose” targets

Improvement through Sectoral Approaches? (I)

- Would by definition give incentives for **sectoral transformation** - but how much?
  - CERs still generated ex post
  - Transaction costs would also increase
  - Basically same revenue risks
  - Huge volumes might depress prices significantly

Improvement through Sectoral Approaches? (II)

- **Environmental integrity**: Would rely on projections, may be more reliable than project-by-project additionality testing, may be not
- **Equity**:
  - Incentive for whom? Recipients of CERs vs. those who bear the costs
  - Might further exacerbate concentration on large rapidly industrialising countries
- **Sustainable development**: Benefits not tied to level of implementation
- **Environmental effectiveness**:
  - Still zero-sum game
  - To achieve peak within next decade, cf. project on rapidly industrialising countries: either ambitious net contributions from South or significantly more stringent Annex I commitmens on order of 45%

Conclusions

- Sectoral approaches would provide more systematic incentives for low-carbon development and allow for higher reductions, but would require significant capacity

- Strength of incentive to be further researched

- 2° target requires substantial net reductions in the South in addition to strict targets in the North

⇒ Put focus on question how that can be organised

- CDM as fall-back position if net contributions politically not possible, but would require further tightening of targets in the North

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Thank you very much for your attention !

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