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Experiences with the market-based mechanisms of the Kyoto Protocol

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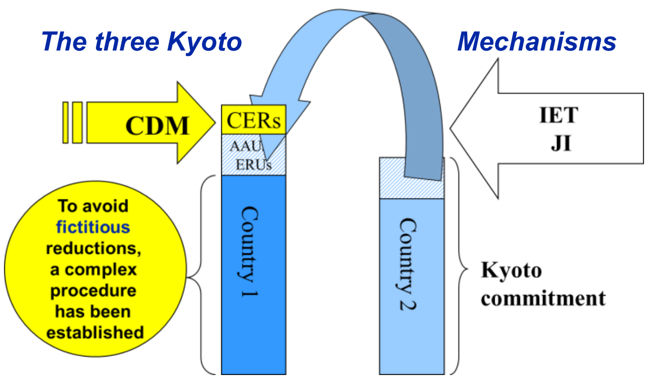
The three Kyoto Mechanisms



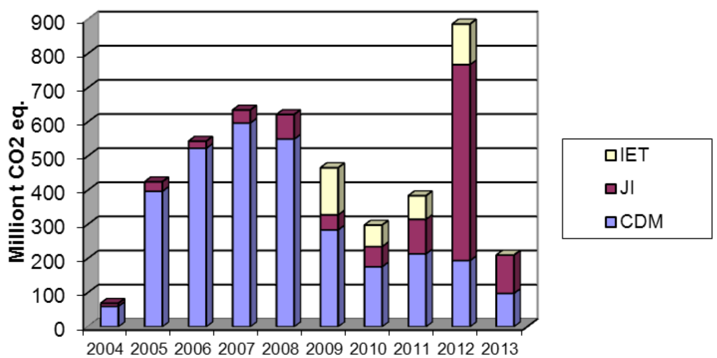
Clean Development Mechanism (CDM): overwhelming numerical success – 10,000 projects, 1.5 billion credits, but some sectors sidelined. Highly transparent process with rapid regulatory learning. Mainly "unilateral" projects financed and organized by companies from developing countries. Difficulties to determine whether projects were "additional" to business-as-usual

International Emissions Trading (IET): stalled due to mistrust of buyers in government sellers. First transactions tainted with corruption. Sale of allowance surplus ("hot air") not credible.

Joint Implementation (JI): latecomer due to late institutional decisionmaking and lack of trust in governmental ERU transfers; became tool to "launder" hot air of countries in transition.

Clear incentives for the private sector, credibility through transparency and limited government interference determine market mechanism success.

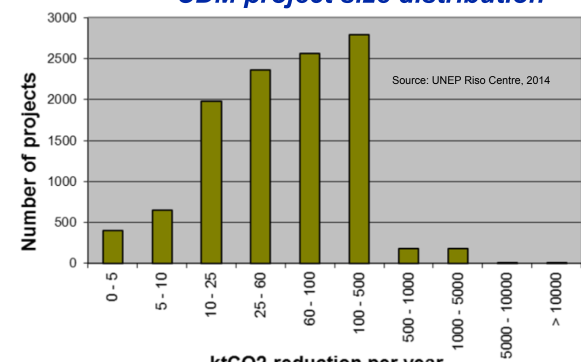
Transaction volumes for the mechanisms



Minor lessons:

- Independent audits initially not credible, but improved after regulatory clampdown
- Transaction costs came down sufficiently to allow small projects
- Programmatic approach benefits poorest countries
- Mitigation performance varies widely across project types

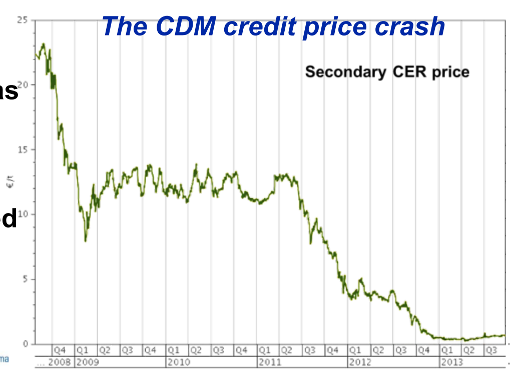
CDM project size distribution



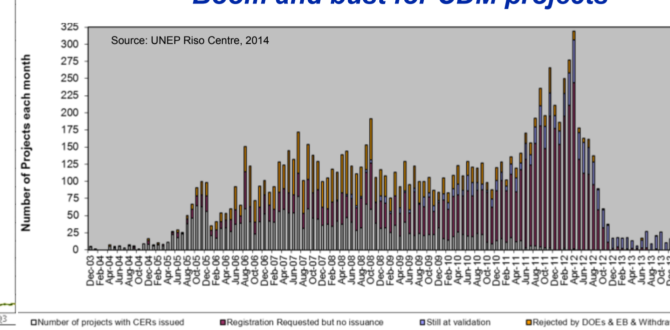
Challenges:

- Increasing protectionism of industrialized countries and lack of ambitious commitments has led to a fall in credit demand and a price crash
- Project development has ground to a halt
- The human capital built up is lost or dispersed
- Fragmentation of market mechanisms has started

The CDM credit price crash



Boom and bust for CDM projects



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